SPECIAL COMMITTEE OF THE WHOLE MEETING
REAL PROPERTY TAX WORKSHOP

AUGUST 28, 2014

The Special Committee of the Whole Meeting, Real Property Tax Workshop, of the Council of the County of Kaua'i was called to order by Council Chair Jay Furfaro at the Council Chambers, 4396 Rice Street, Suite 201, Līhu'e, Kaua'i, on Thursday, August 28, 2014 at 9:04 a.m., after which the following members answered the call of the roll:

Honorable Tim Bynum *(present at 9:11 a.m.)*
Honorable Mason K. Chock, Sr.
Honorable Gary L. Hooser
Honorable Ross Kagawa
Honorable Mel Rapozo *(present at 9:06 a.m.)*
Honorable JoAnn A. Yukimura *(present at 9:06 a.m.)*
Honorable Jay Furfaro

Chair Furfaro: Next, can I get an approval of the agenda?

<u>APPROVAL OF AGENDA.</u>

Mr. Kagawa moved for approval of the agenda as circulated, seconded by Mr. Rapozo, and carried by a vote of 7:0:0 *(Mr. Bynum, Mr. Rapozo, and Ms. Yukimura were not present).*

Chair Furfaro: Before I go any further, I see a hand raised. Ken, can you come up? This is only on the agenda.

There being no objections, the rules were suspended.

KEN TAYLOR: Chair and Members of the Council, my name is Ken Taylor. I want to ask for consideration of some change to the agenda this morning. The agenda, as prepared, seems ambiguous to me and that the changes mentioned are not identified. I would request that the agenda be clarified. To me, the 2013 Council Ordinance affecting the homestead class of taxpayers that repealed the Permanent Home Use (PHU) provision and no other unrelated changes that have been made in the tax law. I would like you to consider the change in the agenda.

(Mr. Rapozo and Ms. Yukimura were noted as present.)

The meeting was called back to order, and proceeded as follows:

Chair Furfaro: Yvette, may you take that testimony from Ken, please? Ken, I am going to ask you for a little patience. I have had somewhat of a full week. As you know, I shared with you yesterday my testimony on the Transient Accommodations Tax (TAT) in Honolulu, but I have outlined a template that I am hoping to use with the members today to be focused first on a parameter of items that deal with the current exemptions. Then, a number of items that focus with various rate plans that have been discussed in particular with the residential and homestead class. I am going to be asking members to stay focused on the workshop on those items. I have had this discussion with Mr. Louis, who surfaced a similar item as you did. For us to have a tax workshop and say it is only focused on a couple of items would be very difficult, but I do understand your testimony. Also, I want to remind Councilmembers that items dealing with the condominium class, time share class, and other fractional ownership, as well as resort categories, are current, live agenda items and have been deferred to Committee. We should really just focus on homestead and residential, but I appreciate your testimony on the agenda. Thank you. For the members, I will be presenting this on the screen. The worksheet I referred to has already been distributed to you. For the public, there is a period here for time that would allow you to have three (3) minutes to give testimony unquestioned from the Council, but purely testimony for the purpose of your time. If you choose to give your testimony now because you are not planning to stay the whole day, this time in our rules is provided for exactly that. There will be no question and answer back and forth from the Council. Clerk, could you please read the public comment portion, please?

PUBLIC COMMENT.

Pursuant to Council Rule 13(e), members of the public shall be allowed a total of eighteen (18) minutes on a first come, first served basis to speak on any agenda item. Each speaker shall be limited to three (3) minutes at the discretion of the Chair to discuss the agenda item and shall not be allowed additional time to speak during the meeting. This rule is designed to accommodate those who cannot be present throughout the meeting to speak when the agenda items are heard. After the conclusion of the eighteen (18) minutes, other members of the public shall be allowed to speak pursuant to Council Rule 12(e).

SCOTT K. SATO, Council Services Review Officer: We have four (4) registered speakers during the public comment period. The first speaker is Claudia Herfurt, followed by Terry Wells.

Chair Furfaro: Claudia, you may come up. Again, you will be given three (3) minutes. There will be no question and answer, but we will receive your testimony.

There being no objections, the rules were suspended.

CLAUDIA HERFURT: *Aloha* Councilmembers. My name is Claudia Herfurt. I have lived on this island for thirty-five (35) years. I first lived in Hanalei and now I live in Kalihiwai. My taxes have tripled this year and that is forcing me to sell my home. I have conducted a small homestay in one small part of my home and paid all of the taxes since 1987; however I have to close that down and discontinue that because it is not feasible anymore. I used to pride myself for not being dependent on either government or my children, but as I said, I have to close my business and sell my home. Many of us are wondering why we residential people are being targeted, rather than the multinational agribusinesses, which have State subsidies or National subsidies and tax breaks. That is really all I have to say. This new rule, which dropped on me basically out of the sky, and to change my status from business to residential, I had no forewarning. I have to do this by the end of the month. I wish I had known and I would have done it last year. Thank you for your time.

(Mr. Bynum was noted as present.)

Chair Furfaro: Thank you, Claudia. Next registered speaker.

Mr. Sato: The next speaker is Terry Wells, followed by Ian Miles.

Chair Furfaro: Terry, you have to sit and identify yourself first for the record.

TERRY WELLS: My name is Terry Wells. I would like to apologize to the Council first. I have written a brief letter and some of the items may not pertain to the agenda as intended. Though brief, I can defer if you prefer to read it later.

Chair Furfaro: You cannot defer to later, Terry, if you want to come and speak again.

Mr. Wells: May I read it now?

Chair Furfaro: Yes.

Mr. Wells: Okay. May I pass out a copy of it to the Councilmembers?

Chair Furfaro: Yes. Please reset the time until after we have collected his testimony.

Mr. Wells: This letter, though written in a somewhat negative approach, is intended to be positive. Here is what I have: "Dear Councilmembers, if I wanted to create a property tax system that was inherently unfair, here is how I would go about it: I would create a valuation system that nobody can decipher. I would publish a little public information as possible, not enough to give a person a clear understanding of how their taxes or their neighbors were arrived at. For example, I would only make available the total evaluation and not break it down into land and buildings." I am referring to the information available online. "This would make it nearly impossible for someone to build a defense against unfair practices without multiple trips to the County Building to beg for information. I would make changes to an individual's tax status without informing him prior to making assessments, not giving him the right to discuss the changes with a group of assessors and perhaps arriving at an equitable solution. Instead, I would create a 'kangaroo court' held after the fact with a predetermined outcome. Number two, I would only publish important tax policy announcements in the local newspaper, as seldom as possible and with the smallest headline possible, knowing that the paper is only read by a small percentage of the island. Three, I would create false and misleading documents like the one titled '2012-13 Real Property Tax Relief Program Updates,' which refers to the Permanent Home Use Cap Program. I would later cancel the permanent program, thus creating a breach of contract with the public. I would establish a tax department that gives assessors a free hand as how they go about collecting and with very little oversight. I would allow each individual assessor the right to choose which individuals he applies the law to and which he chooses to ignore. Instead of requiring each assessor to visit each household individually, I would adopt a system that uses photography from space to determine how many families are living under a single roof or how many buildings on a property are being occupied. I would allow the assessor to visit the same properties year after year and never visit the neighbor down the street, as opposed to doing a scheduled and properly recorded visit of every property on a routine schedule. I would allow the assessor to base a new market valuation on a single sale, often not even in the same neighborhood, instead of taking an average of at the least six (6) sales in the same neighborhood or the next door neighborhoods equally above and below in the neighborhood class."

Mr. Sato: Three (3) minutes.

Chair Furfaro: That is three (3) minutes. At the discretion of the Chair, I will give you one (1) additional minute. Go ahead.

Mr. Wells: I would like to continue. "I would allow the assessor to value properties at the same dollars per acre, whether the price is less than one (1) acre or greater than five (5), even though he should know that anything larger than four (4) acres is harder to sell and worth less per acre. I would allow the assessor to inadvertently make mistakes on the valuation sheet, i.e., building size, building quality, et cetera, hoping that the homeowner will not catch the mistake. I would develop a system that monetarily punishes an individual for giving someone else a roof over their head because they cannot afford even the minimum dollar amount recognized as low-income rental fees. I would ignore the practice used in Europe of rewarding a property owner for doing so. I would create a Home Preservation Tax limitation policy that automatically excludes most of those who deserve it. For example, I would exclude those individuals whose lifesavings are in another piece of real estate instead of a bank account."

Mr. Sato: One (1) minute.

Chair Furfaro: Thank you. Please summarize.

Mr. Wells: "In conclusion, if I wanted to create an extremely unfair tax system and create a huge animosity towards my County government, that is how would I go about. On the other hand, if I wanted to create a fair system that, in the end, would give the County more tax dollars, I would overhaul the current system giving careful treatment to every neighbor equally. I would require better oversight on individual assessors and give more careful thought as to how the bills are written." The above observations are made with careful thought. Though written in a negative approach, they are intended as positive suggestions as to what is needed to be fixed. Each and every one of the above has happened to us over the years, usually many times over. If the Councilmembers want to discuss them further, please contact us. Thank you.

Chair Furfaro: Thank you.

Mr. Sato: The next speaker is Ian Miles...

Chair Furfaro: Excuse me. There is a rule in my Chambers that if you want to express support of the testimony, you raise your hand, please. We need to stay focused on the agenda today. If you want to show support for that testimony, raise your hand. Thank you very much.

Mr. Sato: The next speaker is Ian Miles, followed by Rosalina Lopez.

IAN MILES: Approximately one (1) month ago, I got my new tax bill, which increased from approximately three thousand six hundred dollars ($3,600) to ten thousand five hundred dollars ($10,500). It was like a six thousand four hundred dollar ($6,400) increase and they said they were going back one (1) year, which means it was like thirteen thousand dollars ($13,000) more. I was not even expecting that. It just dropped on us out of the blue. I came home and my wife started to tell me and actually started crying. This severely impacts people's lives. There are inherent injustices in this system. I do not know what is going on in this Council, but I have just begun to fight, believe me, and there are a lot of people like that out there. I have not really listened to the Council and I do not read the paper that much. The last time I was here, I told JoAnn—Councilmembers Kouchi and Baptiste were here honoring my son's team for winning the State Championship in soccer. I do not really get involved, but this thirteen thousand dollars ($13,000) extra bill out of the blue really upset me. I am just beginning to understand how that could have come about. As our children were leaving home, my wife decided to rent out one (1) room. The first year, we probably only made three thousand dollars ($3,000) or four thousand dollars ($4,000), but for that year, apparently we were paying six thousand five hundred dollars ($6,500) in taxes. You need something in the system that stops that kind of thing from happening. I understand that everybody's taxes are going up a little with budget shortfalls, but not individuals happening to this. Sure, apparently I have the right to rent out in Princeville and that is a problem I see with my children renting out—not being available rentals, but I do not know if that is part of this. I have some of my children, married children, and grandchildren stay with me. Essentially, what is happening is because I have a big house and I am able to take care of that, I am getting charged at a commercial rate for all of this, even though I have people under my roof for free. My wife's idea was just to make a little extra money because we needed it because we are just coming into retirement. Instead, it is costing us money. This year, we may come out slightly ahead, but we are not making a fortune. We are not renting out the whole place. We are getting charged the same rate as the people that have one hundred percent (100%) rentals. This just seems like an entire injustice to me. That is the fundamental thing.

Chair Furfaro: That is your three (3) minutes. Thank you for your testimony. Next speaker.

Mr. Sato: The last registered speaker for the public comment period is Rosalina Lopez.

Chair Furfaro: Rosalina, please come up.

SHEILA GARCIA LOUIS: Good morning, Council. My name is Sheila Garcia Louis. I E-mailed all of you Councilmembers about the increase of tax. Three (3) of you replied. Thank you, Mr. Furfaro. I know you were not here.

Chair Furfaro: I was happy to respond.

Ms. Louis: My concern is that we, the people of Kaua'i, bought our properties. We own our properties. Who died and made everybody God to tax us on our land? It is ours. When you go to the store and buy a loaf of bread, it is yours. You do not pay by the slice. I feel that because we pay three hundred thousand dollars ($300,000) to four hundred thousand dollars ($400,000), why should we get taxed on our property? The Federal, State, and County does not do anything on our properties but us, yet we get taxed when we have a dwelling that we put our families in, do not charge them, and we get charged for doing business. There are a lot of retirees that cannot afford this tax increase, and so do we. So people do put dwellings on their property to make extra income, yet doing that, we get punished and we get taxed high. I feel that the Federal, State, and County have properties that we cannot tell them what to do on it, but yet, they can tell us what to do on ours. I feel that taxing the properties— it does not drive on the roadway. I can see our cars because we are driving on the road, but our land does not go anywhere but stay where it is. I feel they should get taxed. If it does, it should be a little amount, not where we cannot afford it. In the end, elderly people are going to have to start selling their property because they cannot make a "go" on it, and then their families will lose out on that. I would like to have the Council people consider about the increase on the properties and try to make something where— I think the County took out the exemptions. That helped the people a lot. Now there are no exemptions on it. When I went to pay my taxes, they said the County Council took the exemptions off. I am asking you to please reconsider and not bring the taxes up higher. Thank you.

Chair Furfaro: Thank you. I want to make a housekeeping announcement. I see many people raising their hands and so forth. We are on the public comment portion. This allows a total of eighteen (18) minutes made up of six (6) speakers of three (3) minutes each with no comments. If you signed up for that and you are part of the first eighteen (18) minutes of speakers, then that is fine. You are being recognized. But other public testimony will be taken at the end of the day with other presentations. Who are the individuals that have signed up for the public comment portion?

Mr. Sato: The last registered speaker in the public comment period is Rosalina Lopez.

Chair Furfaro: Okay. Rosalina Lopez is our next speaker. Councilmember Yukimura.

Ms. Yukimura: I think many who were raising their hands were trying to, instead of clapping, show their support. Actually, during Bill No. 2491, it was like this.

Chair Furfaro: Okay. I appreciate that and I did recognize that, but we also had a number of people who walked in after I read the public comment portion. Rosalina, you have the mic.

ROSALINA LOPEZ: Hi, my name is Rosalina Lopez. I live in what they call "Keapana Valley." I had three (3) acres of land and I gave each of my children one (1) acre. Right now, I have four (4) of my children that live there. I have one (1) acre that belongs to me that I have an ʻohana that my grandson lives in. When I got my bill last year, it was six hundred dollars ($600). This year, for the first six (6) months, it is one thousand four hundred fifty-three dollars ($1,453). I have no intention of selling that place. Forty-five (45) years ago, my husband and I bought that place with the intention that my children and my children's children were going to live there. I tell them today that if I knew all of this damn crap that was coming up, I would have sold my property a long time ago. Children cannot make it here on Kauaʻi because there is no opportunity for them, but we try to be a close-knit family. My family is a very close-knit family. Right now, I have ten (10) grandchildren and ten (10) great-grandchildren. I have my sons and daughters that live there. You are not there to pay the six thousand dollars ($6,000) of insurance that I have to pay for the two (2) houses every year. You guys keep on raising taxes after taxes, after taxes. You are strangling the locals. We are dying. I tell my grandchildren and I am going to tell my great-grandchildren that you guys have to get out of this island. This is not paradise for us locals. They are killing us. Every week, you guys are putting something up. Now it is the trash. What else? It does not come out of your pockets. It comes out of our pockets. What I have today, I worked hard. When my husband and I bought the place from— we worked at the pigpen with my kids. We raised hogs. My husband and I built the pigpen by ourselves. Nobody was there to help us except our children and nobody is there to help us now except my children and my grandchildren. I went in one time and asked, "Why is my tax rate so high?" They said, "Because you sold a lot of land down in Keapana Valley." I do not own a valley house. I do not own the land that McClusky has or Keālia Kai. You guys need to research the land.

Mr. Sato: Three (3) minutes.

Ms. Lopez: Who— not just the people that come here and buy the land and rent up. My daughter has eight (8) children. Seven (7) of them are home with her because when you go to rent someplace, it costs one thousand five hundred dollars ($1,500) or one thousand four hundred dollars ($1,400) just to rent a little room that you cannot even fit one (1) bed in.

Chair Furfaro: Rosalina, you three (3) minutes are up, but I will let you summarize.

Ms. Lopez: That is not right. You are killing the local families. Affordable housing— what affordable housing? What family can pay five hundred thousand dollars ($500,000)? I have my grandkids who work like animals to survive on this island. It is sad; sad, sad, sad. Even sadder is what you guys did to us senior citizens. I am fighting for the senior people who are trying to survive day by day. It is not easy. I came from a local family. I learned how to survive because my father was Portuguese and my mother was Hawaiian. They taught us how to make things stretch. That is what you have to do. You have to research what you are doing in the County. That is not our fault. When I went in to find out about my taxes, they said, "The County needs money." We all need money, not only the County. If they cannot handle the situation, that is their problem. Do not put it on us.

The meeting was called back to order, and proceeded as follows:

Chair Furfaro: Thank you, Rosalina. On that note, our public comment portion is complete. As we go through the workshop, we will end with public testimony from the others who will be given six (6) minutes after the presentations. Can we move to the next item on our agenda, please?

<u>REAL PROPERTY TAX WORKSHOP:</u>

1. The Kauaʻi County Council's Committee of the Whole will hold a non-decision making, informational workshop to discuss the changes to the real property tax structure to include, but not be limited to, real property tax exemptions, tax on use, real property tax rates, the implications of the repeal of the Permanent Home Use (PHU) Tax Limit, the assessment and assessed value of real property in the County of Kauaʻi, potential real property tax reform to address increases

being experienced by property owners in the County of Kaua'i, and educational efforts that have occurred and are planned for the future.

Chair Furfaro: On that note, would I like to put up on the overhead a presentation of the "Order of Business" for today. We will be starting with a presentation from the Administration. The Administration is the most familiar with the actual tax bill and will give us a general overview. I will then go around the table for specific Councilmembers' questions. I will allocate time to each Councilmember of ten (10) minutes. If they use those ten (10) minutes for their presentation and so forth, that is their particular choice. An opportunity for questions and a discussion on the general educational opportunities will follow. I am prepared to share the outline that we have here, as well as the number of exemptions that the taxpayer has to apply for, and we are finding that many people perhaps were not aware of their need to actually apply each year for certain exemptions. After that discussion, we will go back to public testimony, which we will allow the people six (6) minutes for testimony on the items that we have seen. Those of you who have given your testimony under the public comment portion, you will not be allowed to speak again. Those of you that do plan to give testimony after the presentation, I ask you to please signup now. There is a signup sheet on the corner desk by the laptop. Mr. Kagawa.

Mr. Kagawa: In looking at the Order of Business, I was just wondering if there is any section under which there would be some proposals possibly to try and rectify some of the bad situations. What I mean by that is are there any amendments that may be proposed as coming in the future to help correct some of the problems such as lack of education, et cetera or even some proposals that may reinstall the cap and things like that?

Chair Furfaro: We are not entertaining any amendments and so forth, but I have allowed the date of September 10th for those changes to be introduced by the Council, along with any changes that after the workshop and the public hearing, that the Administration would like to introduce. That will be the date we have scheduled to receive those. Thank you for the excellent question. Mr. Bynum.

Mr. Bynum: How much time did you say Councilmembers will have?

Chair Furfaro: The rules say five (5), but I will give each Councilmember ten (10) minutes.

Mr. Bynum: I have prepared a PowerPoint presentation that I think will take twenty (20) minutes, but we will see what happens. Thank you.

Chair Furfaro: I will yield you my ten (10) minutes.

Mr. Bynum: Thank you.

Chair Furfaro: Is Mr. Hunt in the audience? I would like to ask everyone to please have this time to absorb something that might be informative to you in your particular situation. Perhaps there was an exemption that you did not realize was there that you did not apply for or you missed a previous date. Along the same lines, we do have this worksheet laid out and we have copies for the public. This will be our focus of our discussion today. Do the members already have this worksheet, Yvette? It is circulated. Okay. Mr. Hunt, the floor is yours.

There being no objections, the rules were suspended.

STEVEN A. HUNT, Director of Finance: For the record, Steve Hunt, Director of Finance. Good morning, Council Chair, Councilmembers, and aggrieved taxpayers. Thank you for participating and taking time out of your day to be here. I want to review what we did in terms of the removal of the cap, what the goals and objectives were, and what the projected outcomes were versus what the actual outcomes were. The "Goals and Objectives"— this is revisited from a presentation that was done in 2013, which was to "return to a more simplistic property tax system where taxes were once again related to value." I check-marked that because I believe that is what this has done. The second is to "assure equity and fairness among the taxpayers of the same tax class." That essentially says that we are turning into an *ad valorem* system that people all within the homestead class are all paying based on their net value, less all of their exemptions and/or relief programs. Third bullet point is to "provide taxpayers with the options to reduce their taxes and/or change their tax classifications." This was done, but you also see a question mark there. Certainly, based on the number of people here and some of the results, I believe that not everyone is taking full advantage of what they would have been eligible. Some of that, of course, we will take the responsibility for; although the website, newspapers, Hōʻike, and direct mailers were done, some people still did not take the opportunity. Again, could we have done more? We always could have done more. "Establish a more reasonable minimum tax." Again, the minimum tax was twenty-five dollars ($25). For this year, it is one hundred dollars ($100) with some exceptions. Those who are in low-income exemption category actually pay fifty dollars ($50) of minimum tax. Finally, "follow through on tax reforms that were articulated by Councilmembers during our Fiscal 14 Budget, and then were hence incorporated into the Fiscal 15 Budget," which included the removal of the cap.

The initiatives that were approved— again, "eliminate the Permanent Home Use cap on taxes and provide alternative measures that result in the same financial outcome in totality." Again, we were shooting for either revenue-neutral or reduction in taxes by homestead taxpayers. The "increase to the minimum tax from twenty-five dollars ($25) to one hundred dollars ($100), and for Fiscal 15, increasing to one hundred fifty dollars ($150) as the minimum tax"— sorry, Fiscal 16. The increase and the home exemptions— home exemptions were established at forty-eight thousand dollars ($48,000) for those homeowners that were owner-occupants under age sixty (60). Between sixty (60) and sixty-nine (69), it was at ninety-six thousand dollars ($96,000). For age seventy (70) and above, it was one hundred twenty thousand dollars ($120,000). Those were changed to exemptions of one hundred sixty thousand dollars ($160,000), one hundred eighty thousand dollars ($180,000), and two hundred thousand dollars (200,000), respectively. There was no application process. That was just a conversion of existing exemptions based on age to the new higher levels. Finally, "create a Home Preservation Tax limit to assure that some of the outliers that would have the major tax hikes would have the options to insulate themselves with the removal of the Permanent Home Use cap." Again, I think several did not take advantage of that and some because of the onerous nature of not owning additional properties did not qualify.

Measuring the impacts— within the homestead class, we projected that the difference on an average tax base would drop about forty-three dollars ($43), but the median tax base, which is skewed more towards the lower valued properties, would actually drop about one hundred twenty-one dollars ($121). We were projecting that the total impact would be a reduction of four hundred fifty-two thousand dollars ($452,000). The actual results were a little bit less. As you see the values or the taxes in the "before" are actually higher than the projected. That simply is a matter of there are more properties in that and people are always changing classes. Buyers come in from year-to-year. It is the taxes of the new buyers that are compared to the results after the removal of the cap. In totality, it was close. There actually was a reduction in taxes from the homestead group of about four hundred thirty-two thousand dollars ($432,000).

Of the increases— these are just speaking to the increases. We projected that those increases that would be less than one hundred dollars ($100) would be about thirty-five percent (35%). In actuality, there were thirty-four percent (34%); under two hundred fifty dollars ($250) at sixty-six point five percent (66.5%) and there was sixty-six point six percent (66.6%); and under five hundred dollars ($500), eighty-nine point three percent (89.3%) versus eighty-eight point eight percent (88.8%). So more or less tracking around the same lines, although you can see in the actual counts that the numbers in there are higher, so as a percentage basis, they mirror what the projected results were, but in the number count, there were actually more that got increases than originally projected. That is a function of both value increases, as well as some changes in exemptions.

Here are the same results, sort of looking at a pie chart of that: the big blue section represents those that got increases less than five hundred dollars ($500). Again, I am not going to be so glib as to say that a five hundred dollar ($500) increase would not impact certain taxpayers, but I do want to point out that is threshold, that most of that increase again was in the less than five hundred dollars ($500) category.

Taking that out a little further, we projected about a sixty-two point five percent (62.5%) population base that would have gotten decreases and a thirty-seven point four percent (37.4%) that would have gotten increases. The actual results were fifty-one point five percent (51.5%) got decreases whereas forty-eight point two percent (48.2%) got the increases. Again, the average increase was projected at about two hundred forty-three dollars ($243) and the actual average increase was two hundred fifty dollars ($250). The median increase was projected at one hundred fifty-four dollars ($154) and actually it was one hundred sixty-one dollars ($161). We did have projected maximum increase in this category of about twelve thousand seven hundred dollars ($12,700). The actual maximum increase was nine thousand dollars ($9,000). Some of the changes between 2013 and 2014 assessments— again, the data included a different set of properties. There were more properties initially in the homestead class in 2013: ten thousand five hundred ten (10,510) versus ten thousand nine hundred seventy-six (10,976), which means a different set of owners as well for some of those properties. The gross assessments for the homestead increased by about nine point one five percent (9.15%) between 2013 and 2014 with this new data, and properties that had use classification changes including long-term affordable rentals are now being incorporated into this homestead class.

Again, "putting the increases in perspective." With the homestead class as a whole, it actually benefited by a reduction of four hundred thirty-two thousand dollars ($432,000) between 2013 and 2014. There were slightly more owners in this class that received decreases of fifty-one point five percent (51.5%) compared to forty-eight point two percent (48.2%). Of the five thousand two hundred ninety-three (5,293) owners that received increases, one hundred twenty-seven (127) of those were simply moving from the twenty-five dollar ($25) minimum tax to the one hundred dollar ($100) minimum tax. In account, there are two hundred forty-six (246) property owners within the homestead tax class that received increases that were greater than five hundred dollars ($500), which represents about four point six percent (4.6%) of the group as a whole. Again, only five hundred ninety-one (591) or eleven point one six percent (11.16%) had increases that were greater than two hundred fifty dollars ($250). Many of the outliers may have been qualified, but did not apply for additional relief, such as the low-income exemption and/or the Home Preservation Tax credit, leading to some of those outliers with the higher taxes. Then taking this island-wide, these are properties where the homeowner has an exemption because they claim it as their primary residence, but also include properties that have multiple uses, which could be vacation rental, commercial, industrial, and other uses outside. For example, homes where there is a home and a rental and that rental is not part of the long-term affordable rental program, rather than being in the homestead is classified as residential. As you know, the rates for residential were also increased this year, so that adds to the impact.

Looking at all of the homeowners in all classes, those that were greater than the five hundred dollar ($500) increase is still the bigger portion— sorry, less than five hundred dollars ($500) is the bigger portion. You start to see more in that category in the orange in that five hundred dollars ($500) to one thousand dollars ($1,000). These primarily are properties that are probably in the residential or vacation rental class, getting higher tax bills.

Continuing on to the measured results island-wide— again, the predictions were about fifty-seven percent (57%) would receive decreases and about forty-three percent (43%) roughly would have increases. The actual amounts ended up being about forty-six point three percent (46.3%) got decreases as opposed to fifty-three percent (53%) that got increases. Again, this is the whole category homestead combined with those that are outside of the homestead class with exemptions. The projected average increase was about three hundred eighty-seven dollars ($387). The actual average increase was about four hundred fifty-four dollars ($454). The median increase, which is the sort of midpoint, was projected at about a two hundred eight dollars ($208) increase as opposed to an actual two hundred twenty-one dollars ($221). The maximum increase was projected at about thirteen thousand five hundred dollars ($13,500) and actually it ended up being a vacation rental going over nineteen thousand seven hundred dollars ($19,700). Again, vacation rental also has an owner-occupant in it. So the changes between 2013 and 2014 include different sets of data. Twelve thousand three hundred forty (12,340) were used in the 2013 analysis with the actual 2014 assessments included twelve thousand six hundred seventy-nine (12,679) owners that had exemptions. Gross assessments in the totality increase by about eight point six eight percent (8.68%). The tax rates for residential and vacation rental classes were increased and there also had properties that had use changes between 2013 and 2014.

Removing the PHU for all classes based on the 2013 assessments and applying the proposed new exemption amounts and the Fiscal 14 rates: the projected total impact for removing PHU is estimated at approximately four hundred ninety-six thousand dollars ($496,000). That was not a revenue-neutral proposal and included all classes. It was actually an increase. There was a decrease to the homestead, but that was made up by increasing all classes, and again, this was somewhat of a buffer because we anticipated more decreases coming in through the Home Preservation Limit. At the time of the certification of the tax roll, we only had three (3) approved Home Preservation Limits, totaling a little over twenty-nine thousand dollars ($29,000), so it was roughly about ten thousand dollars ($10,000) per exemption or tax credit, if you will. That buffer was meant there to absorb some of those increases we anticipated that did not come. I do not have figures. I know the extend deadline was August 8th, so there are some that could still be in the pike that would be additional reductions to taxes for those that qualified for the Home Preservation Limit, and I hope to get those figures to you soon.

The actual results, when we compare what was estimated from the 2013 values to the 2014, the increase showed about one million two hundred thirty-six thousand dollars ($1,236,000) more, so that is seven hundred forty thousand dollars ($740,000) more than had been anticipated over the four hundred ninety-six thousand dollars ($496,000). The several factors that led to the variance including higher valuations, new properties in the grouping with the homeowners; there are four hundred twenty-nine (429) new properties; and changes to the classifications between years. There were one thousand forty-nine (1,049) properties or about fifteen point three seven percent (15.37%) of the tax increases that were greater than five hundred dollars ($500) when all owners were considered. So removing the two hundred forty-six (246) in the homestead class that got increases greater than five hundred dollars ($500); that means eight hundred three (803) of the increases greater than five hundred dollars ($500) were coming from other classes, primarily vacation rental and residential classifications.

In comparing homeowners' taxes and household income by County, the average homeowner bill on Maui is eight hundred twenty dollars ($820). Their average net assessment is about two hundred ninety-five thousand dollars ($295,000). Their Median Household Income (MHI) is about eighty-four thousand nine hundred dollars ($84,900), and as a percentage of their real property tax, they are paying roughly a little less than point nine seven percent (0.97%). Hawai'i County has an average tax bill of about nine hundred thirty dollars ($930), but that is based on a much lower assessment, average of one hundred fifty-one dollars ($151). They have a Median Household Income of about sixty-nine thousand eight hundred dollars ($69,800) and they are paying roughly as percentage of their income, one point thirty-three percent (1.33%). On Kaua'i, our average homeowner tax bill is nine hundred sixty-eight dollars ($968). Our Median Household Income is sixty-two thousand seven hundred dollars ($62,700). As an average, we are paying about one point five four percent (1.54%) on a value of about three hundred seventeen thousand six hundred dollars ($317,600). City and County homeowners pay roughly one thousand seven hundred fifty-five dollars ($1755). Their median income is significantly higher at ninety-seven thousand nine hundred dollars ($97,900), but so too is their real property tax percentage of income. They are paying roughly one point seven nine percent (1.79%) with an average net taxable of about five hundred one thousand eight hundred dollars ($501,800). Again, comparing statewide, if we look at our values compared to other Counties exemptions and tax rate programs; for properties that are two hundred fifty thousand dollars ($250,000) valued, that would be the gross value for an owner that is under sixty (60) years of age. In the City and County, you would be paying roughly five hundred ninety-five dollars ($595) in taxes. In Maui County, you would be paying two hundred fifty dollars ($250) in taxes. In Hawai'i County, would be roughly one thousand two hundred ninety-one dollars ($1,291) in taxes. For Kaua'i, you would be paying about two hundred seventy-four dollars and fifty cents ($274.50), but if you were to get an income exemption added on as a low-income exemption, your minimum tax bill would be fifty dollars ($50) under this scenario. Doing the same comparison at the same price rate or gross value rate, you can see that the age exemption for those over seventy (70) kicks it down a little bit more, so your tax bill drops to one hundred fifty-two dollars and fifty cents ($152.50). That would be your annual bill without an income exemption for a house that is assessed at two hundred fifty thousand dollars ($250,000). If we take the same analysis and look at it for a house that is five hundred thousand dollars ($500,000) dropping down to the bottom line— Kaua'i, if you have an income exemption, we have the most favorable program. You would be paying about six hundred seventy-one dollars ($671) in taxes. But if you were on Maui without an income exemption compared to Kaua'i without an income exemption, you would pay slightly lower at eight hundred thirty-four dollars ($834) versus one thousand thirty-seven dollars ($1,037). That is for age under sixty (60). Again, under seventy (70) and over, that bill drops a little bit further down to nine hundred fifteen dollars ($915).

Here is a sample of a removal of the Permanent Home Use cap for a long time homeowner: the one in bold is the one that has been the longtime homeowner. If you look at the very far right corner, you will see "owner since." These are all local people who all have home use exemptions and are in the homestead class. None of them have other uses. The homeowner in the bold bought the property as vacant land in 1960, built the house in 1963, and has lived there since. You can see the sampling where the value actually in 2013 of the four (4) properties had the highest value slightly at four hundred eighty-five thousand one hundred dollars ($485,100), maintained an age exemption of one hundred twenty thousand dollars ($120,000), and had a taxable amount of three hundred sixty-five thousand one hundred dollars ($365,100). In comparison to what his neighbors were paying all on the same street, this owner was paying three hundred eighty-nine dollars and fifty-eight cents ($389.58), whereas the property that had the next highest value and also had an age exemption, but did not acquire it until 2008 was paying nine hundred forty-seven dollars and ninety cents ($947.90).

Without the cap, which is the 2014, you can see that the values changed slightly from year-to-year, so there was an increase in valuation. The next exemption amounts now were increased to reflect the higher exemptions. The net taxable amounts are decreased. The taxes now for the first three (3) owners have dropped, but the fourth owner, who had the house the longest, has increased from three hundred eighty-nine dollars ($389) to nine hundred four dollars ($904). That is about a five hundred fifteen dollar ($515) increase in taxes between 2014, but if you look at the group in total taxes and compared all four (4) taxpayers collectively, their tax bill as a group actually went down twenty-one dollars and fifteen cents ($21.15). In this case, the length of ownership is not always indicative of the ability to pay taxes. It creates certainly a system of entitlements and removing those can be very difficult.

"Proposed Interim Solutions"— the Administration is looking at proposing a tax credit for the current year for those who are most aggrieved. This would be based on a dollar amount and not a percentage. The proposal would include an allowance of five hundred dollars ($500) in the increase and a discount of seventy percent (70%) for all taxes above five hundred dollars ($500). It would be available without application to those properties with Home Use Exemptions that are within the homestead and residential classes only and would not be applied to owners that purchased after October 1st, which would be comparing it to the former owner's tax bill, built a second home or had a major addition to the property, or received a Home Use Exemption for the first time in 2014. It would also be extending the deadline for the payment for the first-half tax bills for all owners with Home Use Exemptions. The first-half payment deadline for Fiscal Year 15, which is 2014-2015 tax billing, would be moved from August 20, 2014 to December 31, 2014 and we would waive all penalties and interest for that period. The preliminary cost estimates of implementing this solution would range from about seven hundred thousand dollars ($700,000) to seven hundred fifty thousand dollars ($750,000), and would likely be funded by drawing down moneys from the Unassigned Fund Balance.

I have provided some examples of how those credits might work. If your tax bill went in Fiscal 14-15 from twenty-five dollars ($25) to one hundred dollars ($100), seventy-five dollar ($75) increase would still be within the allowable increase of five hundred dollars ($500). There would be no tax credit and your bill would remain at one hundred dollars ($100) minimum tax. In an instance where it went from two hundred dollars ($200) to eight hundred dollars ($800), where there was a six hundred dollar ($600) increase, the first five hundred dollars ($500) would be recognized. The excess or the one hundred dollars ($100) above that five hundred dollars ($500) would only be paid at a thirty cent ($0.30) on a dollar amount, seventy percent (70%) discounted. That would be an adjusted bill, which would be the five hundred dollar ($500) increase plus the original two hundred dollars ($200) or seven hundred dollars ($700), and the thirty dollars ($30) would be the additional discount, so there would be a tax credit applied to this of seventy dollars ($70). Taking it out to the extreme, when you had a five thousand dollar ($5,000) tax bill and say it went to twenty thousand dollars ($20,000) you had a fifteen thousand dollars ($15,000) increase— the allowable increase is five hundred dollars ($500). The excess would be fourteen thousand five hundred dollars ($14,500). So in this case, the adjusted increase would be four thousand eight hundred fifty dollars ($4,850) and a new tax bill of nine thousand eight hundred fifty dollars ($9,850) and a credit of ten thousand one hundred fifty dollars ($10,150) would be applied to that individual taxpayer.

Proposals for longer term solutions: consider having a third income-based relief measure for the very low-income property owners that could fill the gap where the low-income exemption is insufficient to provide meaningful relief. The net taxable threshold of the Home Preservation Limit cannot be reached, so these would be sort of the gap where you have a net taxable of five hundred thousand dollars ($500,000) or six hundred thousand dollars ($600,000), up to seven hundred fifty thousand dollars ($750,000) where the Home Preservation comes into play, but your income is very limited. We would continue to educate taxpayers on all potential tax relief measures that are available, as well as the application deadlines for such tax relief, refine the definitions of "use" for each tax classification by adopting Administrative Rules pertaining to each use classification.

I think there are some strong compelling reasons why we would not want to bring back the PHU cap: one, it is not a targeted solution and provides tax credits indiscriminately, including those who can afford to pay higher taxes. Is it fair that a "bottom-fisher" that acquired a home in poor economic times, but has the wherewithal to pay higher taxes receives a lower tax bill in perpetuity, while a struggling young family that purchased at the peak of the market continually pays more? The PHU cap is a concern to our bond rating agency and could lead to further erosion of the County's credit rating, as it restricts the ability to raise taxes.

The PHU cap perpetuates inequities arising from inaccuracy, such as undervaluation in prior years and without a means of rectifying the resulting taxes. If the PHU is to be established on the purchase price or the assessment immediately following the purchase; what happens when the owner completes major renovations, adds square footage, builds a second home on the property, subdivides a portion of property, or gets additional exemptions? It creates tax disparities between taxpayers within the same tax classification solely based on what the taxes were when the homeowner acquires the residence. It is a system that is extremely difficult to manage, especially if adjustments to the tax rates are required for changes such a new construction, tax class changes, gains or losses of exemptions, changes in agricultural dedications status, etcetera. It becomes extremely difficult to give accurate tax revenue forecasts or to convey the overall impacts of changing tax rates or exemption amounts. From a financial stability standpoint, the PHU cap allows taxes to drop without limits when values are falling or when additional exemptions are received, but severely limits the recovery of taxes when values begin to rise again. I have provided an example of just that scenario. This is a property where the initial blue line that converges into the green line at the top, where the taxes assuming a two percent (2%) cap in perpetuity. In this case, it began in 2006 and values continued to fall, so the red line is the actual taxes each year, the market taxes. Every year that the market taxes dropped, it creates a new cap ceiling. If you take it all the way out to the far end, that light green line above the short red line is the new cap if we were to carry this out to 2014. In this case, the property in 2006 had been paying four thousand nine hundred twenty-one dollars ($4,921). Today, they are paying two thousand five hundred thirty-two dollars ($2,532). The ability to recoup to ever get back to revenues is severely hampered because the cap follows the market down.

These are states in the 1980s that had limits on assessment: California, Arizona, and Colorado; just three (3) states. In the 2000s, that has been increased to eleven (11) states plus the District of Columbia. Here is what happens when taxes become capped. As you can see, the top blue line is fees/charges. When property taxes begin to drop as a percentage of income— in the case of California in 1977, property taxes represented sixty-six percent (66%) of their revenue base. In 2011, it was only forty percent (40%), while fees went from fifteen percent (15%) to thirty-five percent (35%).

Now I want to review just the current tax relief measures that are out there and the benefits, as well as the deadlines, just for the public that is watching as well. The first is the Home Use Exemption. Again, this is your primary residence; you live there. You are entitled to exemptions one hundred sixty thousand dollars ($160,000) for those under sixty (60); between sixty (60) and sixty-nine (69), one hundred eighty thousand dollars ($180,000); and for those seventy (70) and older, two hundred thousand dollars ($200,000). It is a one-time application. You do not have to reapply when your date changes. The property owner's birthdates are collected at the time of application and the older of the property owner who establishes the age differential first will automatically get the property exemption increased at the time that happens. Again, that is on or before October 1st, which is our date of valuation.

The next one is the low-income exemption. That is one hundred twenty thousand dollars ($120,000) exemption and is based on the eighty percent (80%) of the Gross Median Household Income, which is provided by Housing and Urban Development (HUD), through the Kaua'i Housing Agency provides us that information for the 2015 application, which is coming up for September 30th deadline. That amount is a gross income of fifty-six thousand two hundred dollars ($56,200) or less. That is an annual application because incomes change year-to-year, as well as the amount in the thresholds will be changing year-to-year. That is one that you have to apply for annually. There are exemptions for Totally Disabled Veterans. If you are a Totally Disabled Veteran, you are actually one hundred percent (100%) exempt from property taxation with the exception of minimum tax, and that is also a one-time application by September 30th.

For blind deaf or totally disabled, there is a fifty thousand dollar ($50,000) additional exemption and that is also a one-time application by September 30th. Those who suffered from Hansen's Disease, that is also a fifty thousand dollar ($50,000) exemptions with a one-time application by September 30th. There is a Safe Room Exemption of forty thousand dollars ($40,000). Those have to be in by September 30th and require an architect stamp that it meets their criteria of being a safe room.

Kuleana exemptions: these are also one hundred percent (100%) exempt except for minimum taxation. They have to be used for agricultural or residential purposes, not vacation rentals or commercial use. You also have to establish that the bloodline lineage between the owner and the original Kuleana Grant are within the same family. The Office of Hawaiian Affairs (OHA) certifies that.

The Home Preservation Limit: this is essentially a break from paying based on *ad valorem*. Taxes are based on three percent (3%) of gross income. It is an annual application by September 30th. The maximum gross income to be eligible is one hundred thousand dollars ($100,000) and it is for all property owners, so if all titleholders who have an interest in the property, you would collect their gross income, and as long as it is lower than one hundred thousand dollars ($100,000), they would pay an in lieu of tax of three percent (3%) of the gross income. There is a floor of five hundred dollars ($500) and essentially a ceiling of three thousand dollars ($3,000) since one hundred thousand dollars ($100,000) is the income limit at the moment.

Hawaiian Homelands pay no real property tax, but they do pay their trash collection fees and there is no application required for that. Agricultural Dedications have to be applied for July 1st and they are either on a ten (10) or twenty (20) year program. That is when the renewals come up. Those decrease the value of the property in its agricultural use value as opposed to its market value, primarily a tool for vacant land once the home is built. The difference between excess land and dedicated land is somewhat nominal, but for vacant land, it is very effective tool to reduce taxes, but you do have to have a *bona fide* agricultural use.

The Long-Term Affordable Rental: this is not a break in terms of an exemption, but it does get you into the homestead tax class, which is the most preferred rate. It can be a combination of a property that has multiple homes, provided all of them either have an exemption and/or a Long-Term Affordable Rental Agreement. They are one (1) year agreements that have to be executed prior to September 30th, so it is within the calendar year of the assessment and it is an annual application process. Those rents are determined by room count/bedroom count and you can either do them as a gross rent where the landlord pays all utilities or a net rent where the tenant pays all utilities. There are thresholds for that based on bedroom count.

Also, information that should be out there that the public should know about is that anyone who records— and it has to be recorded in the Bureau of Conveyance, but anyone who records a fifteen (15) year lease for residential use on the property has the same rights as an owner. So specifically in those properties where maybe a family member resides in a second home, a recorded fifteen (15) year lease, without deeding them an interest in the property, gives them the same rights as owners, which would entitle them to an additional exemption on the property for living there and also could wrap it into the homestead class, if there are only two (2) homes, and both are either owner-occupied or occupied with a fifteen (15) year tenant. Of course, the other option is deeding a small percentage interest to another family member living on the property. Again, it means giving them full ownership rights provided that they live there and that again can get them into the homestead tax class.

Important dates to remember: September 30th is the deadline for filing all exemption claims, income-based relief, affordable rental applications, and ownership changes for the next coming year. October 1st is the date of valuation for the 2015 year. December 1st is when the notices of assessment will be mailed to the taxpayers. December 31st is the deadline for appeals, and that is appeals on assessed value, exemptions that they feel they are entitled to, and the use classification. You can appeal value, loss of an exemption, or your use classification. It has to be done by December 31st. January 20, 2015 is actually the second half billing for our current fiscal. February 20th is the due date for that payment, so you have one (1) month from billing until the due date. March 31st is, by Charter, the certification of the assessment roll that goes to Council. June 20th is when the deadline that Council has to set the rates. July 1st is the deadline for filing for next year's agricultural dedications, also the beginning of the next Fiscal Year. July 20th is the first-half billing for the next fiscal, Fiscal Year 16 and August 20th is the payment for that first-half due. Again, these are very important dates to remember for taxpayers.

On our website, we continually post what is new. The most recent one was extending of the deadline for filing for Home Preservation Tax Limit to August 8th. All the tax changes were included as well. There were direct-mailers and this was the information contained in those mailers as well. This is a reminder that real property taxes in our General Fund contribute about eighty-one percent (81%) of our budget; TAT being the next highest contributor in revenues at about eleven percent (11%.) So between the two, ninety-two point four percent (92.4%) of our General Fund revenue comes from two (2) sources: property taxes and TAT.

In conclusion, structural changes to reassign the tax burden within the homestead class meant that some owners would pay more and some owners would pay less. But as a whole, they would collect fewer taxes from this group and that the method of determining the taxes would be equal and fair to all taxpayers within the same class. Because our PHU cap program kept the real property taxes for certain homeowners extremely low for such a prolonged period of time, those same homeowners that benefitted the greatest from the PHU cap also received the largest percentage increases to their 2014 bills. The good news is despite the large percentage increases, the actual dollar amount increases in the homestead class remain relatively low with thirty-four percent (34%) receiving increases in their taxes that were less than one hundred dollars ($100); sixty-seven percent (67%) less than two hundred fifty dollars ($250); and eighty-nine percent (89%) less than five hundred dollars ($500). Many homeowners failed to take advantage of the tax relief measures that were made available to them. Again, I believe that we certainly could have done a better job communicating, but the bottom line is that there are advantages out there that were probably not taken to get their taxes lowered.

It is the Administration's position that targeting tax relief should be based on need and an income-based approach that is more effective than a blanket approach that ties tax relief to the date of purchase or length of ownership. The proposed tax credits for 2014 or Fiscal Year 15 Budget would help bridge taxpayers in to the next year where additional relief can be sought through getting the right exemptions, applying for income-based relief measures, or changing tax classes by taking the appropriate steps necessary. These tax credits would be applied to those most aggrieved in actual dollar increases by setting a five hundred dollar ($500) floor and discounting amounts above that threshold by seventy percent (70%). Real property tax revenue continues to comprise about eighty-one percent (81%) of our General Fund moneys and the inability to re-stake the County of Kaua'i's claim to over ten million dollars ($10,000,000) in lost revenue from TAT due to the State's cap for the County share has left a hole in our funding sources. It should be noted that the total collection from the homestead group is just over ten million dollars ($10,000,000), so it is roughly the same amount lost to TAT from the cap is what we collect from our homeowners.

Chair Furfaro: Steve, since you touched on the TAT, could you just explain by legislation what we are entitled to, but what we were capped? Could you just explain?

Mr. Hunt: Yes. The original sharing agreement had the four (4) Counties sharing a total of forty-four point eight percent (44.8%) of the TAT collected statewide. Of that forty-four point eight percent (44.8%), the County of Kaua'i's share was fourteen point five percent (14.5%). The cap, which went into effect in 2010 I believe, capped the County of Kaua'i's share at thirteen million four hundred eighty-five thousand dollars ($13,485,000). The legislation for the next two (2) years, Fiscal 15 and Fiscal 16, provided one million four hundred fifty thousand dollars ($1,450,000) in additional cap revenue, but well short of the ten million dollars ($10,000,000) million that we likely would have received absent the cap.

Chair Furfaro: Steve, I do not want to do this because I want to finish the presentation, but the point is by legislation, we are entitled to twenty-four million one hundred thousand dollars ($24,100,000). We are getting what now?

Mr. Hunt: Fourteen million nine hundred thousand dollars ($14,900,000).

Chair Furfaro: A difference of ten million dollars ($10,000,000). Please go on with your presentation.

Mr. Hunt: Sure. In an attempt to make up the lost TAT revenue, the decision to increase tax rates on residential and vacation rental classes has only further exasperated the removal of the PHU cap for those homeowners since it meant recalculating the market taxes at the new higher tax rates. Reviewing the two income-based relief measures, the Home Preservation Limit and the low-income exemption, we believe a third measure is warranted to cover those homeowners with very low-incomes, but whose property values have a relatively high next net taxable value. That is the conclusion.

Chair Furfaro: For the general audience and members, if we could stay on track here, please. The next section is going to be questions to the Mayor's Administration and the Finance Director. They will have questions regarding the presentation. I have decided to also make copies, and it will be available to you at the break time, of the presentation that is there. There are three (3) sheets. Please do not reach for it now. We will get to it at break time. There is the summary of the options, and then for those who had heard about the requirement to apply, there are the applications. There are three (3) parts there. Now we are going to do questions from the Councilmembers. I am going to recognize Mr. Bynum, Mr. Kagawa, and then Mr. Chock.

Mr. Bynum: Thank you, Mr. Hunt, for the presentation today. It is clear— I think I am just going to have a couple of questions for now. One is that all of this information you have presented was presented to this Council at budget, correct?

Mr. Hunt: In the Fiscal 14 Budget.

Mr. Bynum: Right. So part of your presentation there is "here is what we predicted" and "here is what actually happened."

Mr. Hunt: Correct.

Mr. Bynum: The predictions were all presented by you at budget? Correct?

Mr. Hunt: Correct?

Mr. Bynum: So the Mayor's proposal this year was to keep the homestead tax rate the same, correct?

Mr. Hunt: Correct.

Mr. Bynum: He knew, and you told us, that over six hundred (600) people for instance would get more than five hundred dollar ($500) increases, correct?

Mr. Hunt: Correct.

Mr. Bynum: In looking at your presentation today, your predictions were not that far off. Correct?

Mr. Hunt: Correct.

Mr. Bynum: But some of those predictions were changed, outcomes were changed, because of Council actions to increase, for instance, the single-family residential rates slightly this year. In terms of what you told us about removal of the cap, and how it would impact different homeowners, you shared that with us, right?

Mr. Hunt: Yes.

Mr. Bynum: The Mayor's proposal was not to do any relief when he presented that. He knew what the outcome would be. You have explained it that a lot of people had tax decreases who are probably not here today, and a lot of people have tax increases in order to make the taxes fair. But you presented to us what those impacts would be, correct?

Mr. Hunt: Yes.

Mr. Bynum: There were proposals presented at Council that would have ameliorated the impacts.

Mr. Hunt: Some of them. The outliers probably still would have been impacted to some degree.

Mr. Bynum: Okay. That is the first point I wanted to make because— and then changes in assessed values, you also predicted for us. You did not present that right now, but your predictions were pretty accurate, correct?

Mr. Hunt: Yes. The predictions that were made from the 2013 tax data included the changes to exemptions and market values relative to the tax rates at that time. Those were the predictions that did not incorporate a prediction of appreciation or expansion of the group that there were going to be more taxpayers in that group or different owners. We could not predict that. We did have an estimated prediction of what the total tax base might grow at the budget, but that was further along; not part of the presentation regarding the PHU removal.

Mr. Bynum: Many of the tax relief measures that you shared with the community today were proposed by the Mayor in late 2011 and discussed in 2012, right? During those presentations, you shared that there would be many people who had tax increases if the rate remained the same, correct?

Mr. Hunt: Yes.

Mr. Bynum: I am just trying to... I went through those budget sessions and I have read all of the minutes. I think in a sense that the Administration was not clear with the Council about what they were proposing and what the outcomes would be— I just wanted to dispel that on your behalf because you came here and presented this information, correct?

Mr. Hunt: I think there was a detailed spreadsheet that had a parcel by parcel analysis of what those changes would be.

Mr. Bynum: That is my last question. You remember that during budget, I put up a live spreadsheet on here that we could plug in different rates and see the outcome for every single taxpayer in the County; that this tool was made available to all of us and any of us— I spent hours and hours with it, but any of us could plug in tax rates, plug in different scenarios, and understand the outcome and measure it. How many people get increases? How many get decreases? This was presented on the floor, correct?

Mr. Hunt: Yes.

Mr. Bynum: That is all I have for now, Chair.

Chair Furfaro: Mr. Kagawa, you are next.

Mr. Kagawa: Steve, how long has the cap been in place?

Mr. Hunt: Since 2004.

Mr. Kagawa: Why was it done?

Mr. Hunt: I believe the stated purpose was to stop the taxes increasing while other relief measures were looked at to come up with a comprehensive program.

Mr. Kagawa: So it was not done to kind of balance the crazy real estate market?

Mr. Hunt: I would not call it "balance the crazy," but I think there was sort of a timeout to say that "the values are increasing rapidly and we need comprehensive tax measures that address this."

Mr. Kagawa: So it was done because people were complaining back in 2004?

Mr. Hunt: Right.

Mr. Kagawa: Because of tax bills that were just doing the same thing as now?

Mr. Hunt: Right. Again, I believe the values were increasing and the rates remained the same, so the outcome was that tax bills were increasing.

Mr. Kagawa: I voted "no" on removing the cap because I felt rushed. If we had a cap in place for ten (10) years, why would we rush to remove it? Something that has been done for ten (10) years and people are used to it— and then we rushed to remove it because... what did we do? Did we decide all of a sudden that this is the year? What is the reason?

Mr. Hunt: It actually was a series of changes that occurred throughout. It started with adopting many of the recommendations, which included the Kuleana lands. That was an exemption. There were other changes that... it was a year-to-year-to-year and really we stripped almost all of the recommendations except the removal of the PHU, which was the last one. The increase of exemptions was the one that was tied to that, as well as the tax rate had been dropped by Council in, I think, in the two (2) subsequent years at the three dollars and five cents ($3.05). I think we deemed that it was time to come off and we had to rip the bandage off at some point. Again, it was not something that was just thought of in short order; it had been something that worked on a whole comprehensive set of plans and this was the last measure. In order to actually make it effective for the tax year, we had to do it. There was a time constraint on that.

Mr. Kagawa: That is what I guess my question was. Why did we not spend a little bit more time educating us and educating the public, so that at least that bill was not a surprise? Because I have people that are sitting here that they opened their bill, came right up here, and said, "I cannot pay this." I think one of the reasons is that people that have that "old style," that have that lot over ten thousand (10,000) square feet...

Mr. Hunt: The 'Ohana.

Mr. Kagawa: We had that Additional Dwelling Unit (ADU), possibly for our kids. What happened when we removed the cap that made these people with the second home...

Mr. Hunt: More aggrieved?

Mr. Kagawa: Yes. What happened?

Mr. Kagawa: In those scenarios, it was the tax rate more than anything else. When the cap had been established, the rates were much lower in the residential the category than it is today, so it was a combination of removing both the cap that protected the value increase and the rate increase. It was sort of a double whammy at one time. In those instances, really, the relief is if it is a family member, get them a fifteen (15) year lease and put them on deed. There are measures that would bring that back into the homestead fold and that could provide very meaningful relief. The tax rate for homestead is almost half what the residential rate is.

Mr. Kagawa: I think back in the 80s or early 90s, there was not a homestead rate, right? It was just a residential rate.

Mr. Hunt: Yes. The year 1991 was the first year that the homestead rate came out.

Mr. Kagawa: The year 1991 was the first year of the homestead rate.

Mr. Hunt: Yes, the year 1991 or 1992.

Mr. Kagawa: Basically what you are saying is that the cap protected the ADU from— because now what they are saying is that my ADU is taxed more than my home. In a lot of cases, the home is a lot bigger or what have you. Is that the case?

Mr. Hunt: It really is a case-by-case. You have to look at what happened to the characteristics of the property. If it started as a single-family residence in the homestead, and then they built a second home, we had a formula, which we call Future Use Permanent Home Use Exemption (FUPHUX), Future Use Permanent Home Base (FUPHUB)... you remember it, right Tim? The PHU is the "FU," and then one is dealing with exemptions, one is dealing with new construction, and one is dealing with exemptions, construction, and tax rates. If there are changes that had to be done to a property because they have changed characteristics, then we would have to go back to the original base year and we would have to determine what that change meant in terms of a rate change to the value? It is like carrying forward the cap tax at a different rate if their use class changed.

Mr. Kagawa: Since that seems to be the target, like the Haraguchi's and the other ones, can you explain to me— you have a home and you are getting the homestead rate on it. Last year, you decide to put an additional unit on your property. How are you being taxed now?

Mr. Hunt: Once the unit is built, if it is not an owner-occupant that has an exemption...

Mr. Kagawa: It is brand new. It does not have a renter yet.

Mr. Hunt: It would be residential.

Mr. Kagawa: The whole lot would be residential?

Mr. Hunt: Yes.

Mr. Kagawa: Both houses?

Mr. Hunt: Yes.

Mr. Kagawa: So the house that you live in is no longer homestead?

Mr. Hunt: You still get the exemption, but the whole class applies to one (1) property. We do not have a separation of value between land and house and ADU versus the main— you could create that by "CPR-ing" the property, so if you wanted to have two (2) separate; keep one (1) in homestead and one as a long-term rental, you could do that. But you would have to create that division for assessment purposes.

Mr. Kagawa: What if in that additional house, your college child lives in it. Does two (2) become homestead?

Mr. Hunt: Not if he is not leased in there or if he is not an owner in any way. He has to be qualified as an owner-occupant.

Mr. Kagawa: So instead of paying three dollars and five cents ($3.05) per thousand, you would pay six dollars and five cents ($6.05)?

Mr. Hunt: Yes.

Mr. Kagawa: You pay three dollars ($3) more.

Mr. Hunt: Right. If you wanted to do a one (1) year lease with him under the Long-Term Affordable Rental Program, if you wanted to, you could create a one dollar ($1) a month lease, hand that to us, and say, "My son lives here." Then it becomes homestead again.

Mr. Kagawa: I am done for now, Chair. Thank you, Steve.

Chair Furfaro: Thank you. I am going to go to Mr. Chock now.

Mr. Chock: Thank you, Steve, for your presentation. I appreciate it. I was not here— this was the first time I saw a lot of information, and I am sure for many people here also. Not everyone watches the show here and I was not here at the time, so it was good to kind of get a sense of what the reasoning was as you moved into removing the cap. I think people are probably relieved that the opportunity of a seventy percent (70%) discount here— I am calling it a "discount" because my question is around— it sounds like this is a one (1) year deferral of the actual payments, which would still put people in a year's time in the same predicament of having this huge bill.

Mr. Hunt: Potentially. Again, I view this was a credit to give them the opportunity to now seek all potential relief measures available to them. There may be some that went from twenty-five dollars ($25) to seven hundred dollars ($700) and have all of the measures. Again, if my mantra is if we are looking at additional relief, it certainly has to be income-based. It cannot be a *carte blanche*. There are people on a fixed income that are low-income and there are people on a fixed income that are very high, so it does not measure the ability to pay. I really think the targeted approach should be "show us the need," and if there is a need, I am certainly willing to help. The whole issue of just because you have owned the property longer, you get some sort of benefit and relief within the taxpayers of the same class— that is a philosophical question, but that is what removal of the cap has done is make it equal for all taxpayers within the category.

Mr. Chock: Are there any ideas in terms of how we might phase this incurring bill over a longer period, so that we could have it become more equitable and affordable for our taxpayers.

Mr. Hunt: I think one of the proposals that you will be receiving is the measure to extend the payment deadline retroactively, so anybody who has not made payment yet or has not paid their half would be waived from all penalties and interest, and at time that credits are calculated, they would have a revised tax bill and have up until December 31st to pay that first-half. Of course, the second-half is not too far behind, so I do not know if you wanted to consider some sort of a program in the second-half. It also ties within cash flow that the County needs to pay its obligations with debt service, payroll, and etcetera.

Mr. Chock: So the tax exemptions that you spoke of are now going to be open until September 30th. Is that correct?

Mr. Hunt: Yes. The current exemptions that we have in play are open through September 30th. The one that I spoke about that I believe the Chair is working on a draft of has to do with a targeted income for the very low-income that would be able to qualify to break the tie between value and taxation based on need. That could be done after the fact because it does not affect exemptions. It is a credit, not an exemption. It does not affect the classification or assessed values; it affects the backend taxes, so it could still be done after the September 30th date.

Mr. Chock: Okay. I know you mentioned it in terms of education and communicating these changes in the future, but I did not hear anything new that obviously we did not get to people. Are there any new strategies in terms of trying to get to people and educating what the changes may be?

Mr. Hunt: We offer to have after hours consulting for people who are working. Myself and Kim Hester would gladly meet with taxpayers to go over their individual circumstance and see about making recommendations. Thus far, I have not had anybody take me up on that offer.

Mr. Chock: Okay. Thank you.

Chair Furfaro: Mr. Rapozo, and then Mr. Hooser.

Mr. Rapozo: How many of you in the audience knew that they were doing after hour consulting? That is my point, Steve. I think we are not getting the word out. That is the first question. I did not know about that, but I wish I did because we could transfer a lot of the calls that we get straight to you. I am glad you made that offer on television, so that the millions of people who are watching will know. It is not a criticism. It is just the reality that they do not get the word. What did you say? Hō'ike...

Mr. Hunt: The newspaper...

Mr. Rapozo: Okay, The Garden Island. No offense to The Garden Island newspaper, but their readership is not the best.

Mr. Hunt: Hō'ike and I believe there is radio spot as well.

Mr. Rapozo: Which Hō'ike? The Mayor's show? How many of you watch Hō'ike? I do not know what the mechanism is, I really do not. But this is a good one. I think we just need to get the word out. Let me just preface my questions: when I use the term "local," that means a resident. It does not mean a race, color, or creed. It means that you live here the entire year; not a part-time resident. I do not care if you vote here and live somewhere else. I am talking about the a twelve (12) month resident of Kaua'i, to me, is a local person when I use that term. If we could put up slide number 12, I just want you to go over your first bullet point. My. Bynum talked about that your projections were almost right on target. Like Mr. Kagawa, I did not support the cap removal; not because I thought it was a bad idea, but because I was not ready and because I was not convinced that the numbers were right. There was something in me saying, "Mel, not yet." I think that is quite telling and maybe you can explain— I know it is there in the bullet, but if you could explain to the public that the projected impact for removing the PHU for all classes was estimated at just slightly under five hundred thousand dollars ($500,000). But the actual was one million two hundred thousand dollars ($1,200,000). That is not almost...

Mr. Hunt: No, but you could take... let me get the other bullet. There are four hundred twenty-nine (429) new properties in there, so if you take the four hundred twenty-nine (429) new properties times the average tax bill for... this is the non...

Mr. Rapozo: Steve, my point is when we did the estimation of four hundred ninety-six thousand dollars ($496,000).

Mr. Hunt: Yes.

Mr. Rapozo: Did that include any perspective new properties? Did that take into account any...

Mr. Hunt: No. It was a stagnant analysis based on 2013.

Mr. Rapozo: Right. That is why I was uncomfortable because I knew that property values were going to go up. I knew that new properties were going to be built. In essence, the County enjoyed a benefit of almost three quarters of a million dollars ($750,000), when the public, if they were paying attention, was looking at a benefit of about half a million dollars ($500,000).

Mr. Hunt: Right.

Mr. Rapozo: That is substantial, in my opinion.

Mr. Hunt: Coincidently, the tax relief credits would be about seven hundred thousand dollars ($700,000) to seven hundred fifty thousand dollars ($750,000).

Mr. Rapozo: Right. The only other question that I have at this point is— we talked a lot about the cap. I think only Councilmembers Yukimura, Furfaro, and myself were here when we actually put that cap in, right Mr. Chair? I believe that was your initiative.

Chair Furfaro: Yes. It was mine and I will review it in my comments.

Mr. Rapozo: At the time, you said it best. There was aggressive increase of property values. It was going through the roof and these people— you think they are pissed off or upset now, but it was worse back then because it was just exponentially increasing. These people were getting tax bills... everyone... so the Council, at that time, did what I believe we had to do is stop the bleeding with the cap. You did talk earlier and I just want to know your opinion. You put up a whole list of reasons why the cap would not be effective now, and one of the, which I agree with, is that you set up this inequity because someone that lives on the property for a long time gets an additional benefit. I would agree that in some cases, it causes a huge inequity. What if there was a reset provision? If someone decided to expand their home and they wanted to build another unit or do something different with the property, then it resets. That brings back the equality. That brings back the equity when as we do with Planning, you get a permit, put a fence— I know this because I put up a chain-link fence. I wish I did not because it increased my value more than the fence cost. But that is fair. It added value. I am saying when that happens, is it possible to restore the cap with a reset clause, and the public would know, that if you want to build an expansion or build out your house, it will come with an increased property value and you will be taxed on it.

Mr. Hunt: To some degree, that is how the system was managed. The cap protected the original structure and property, but the addition would then be valued at market just for the addition, calculated the taxes on that, and then added to the base, and the whole thing would be recapped. It became very complicated to explain someone's bill, especially when people would compare bills. "Why is my neighbor who has a higher value paying lower than I am?" A lot of that was information that we got from the public too. Again, those are the ones who probably got decreases and are not here today.

Mr. Rapozo: Or a lot of them with increases that unfortunately have to work. Steve, that is the reality when you do a workshop at 9:00 a.m.

Mr. Hunt: I understand.

Mr. Rapozo: All of the calls that I get are, "Mel, I cannot make it because I have to work. I am upset." That is the reality. Granted that it would cause, I guess, some difficulties to implement, but I think Mr. Chock just asked the question— this is just a band-aid with what the proposal is right now because in one (1) year or six (6) months, or whenever the next tax bill rolls around, we will be here again.

Mr. Hunt: Again, it is the Administration's position that we are supportive of the removal of the cap. It creates fairness between "like taxpayers." Anyone who is... this is probably not a good example because it is (inaudible) within a tax, but if you were to go to the movie theater, you have a children's rate, general fare, and a senior citizen rate, right? If you were to go and you brought your children and your children pay five dollars ($5) and my children pay two dollars ($2) because I have been here longer; I have seen more movies, so I get a discount. It would not seem fair.

Mr. Rapozo: That is what the airlines do, right? You get the mileage plus and I have the guy sitting next to me. The guy sitting next to me never paid a penny because he flies a lot and I do not, so I pay three hundred dollars ($300) roundtrip and he gets a free ride. Steve, I can pick an analogy for every one that you put out. I am just saying let us do something that is fair, something that is right, and something that fixes it and not prolongs— I am not the guy to do that because I am not that bright and I am looking to you folks in Finance to try... I am just thinking that the cap provides the most stability. Yes, it comes with some disadvantages, but that is up to the people to decide. I do not know how many people would be upset if they understand the cap. The problem is education. But if the neighbor understood the cap process— yes, it is unfortunate that if you just bought your house yesterday, you are going to pay a higher tax. Is that fair? No. But is there a fairer way? I think that is what we are all looking for, including your office.

Mr. Hunt: Yes.

Mr. Rapozo: So if the cap resets, is it too difficult in your opinion?

Mr. Hunt: Too difficult and I think it will just create the same problems that we prolong with the ten (10) year cap that we had. I think the longer it exists, the more those inequities would build up again.

Mr. Rapozo: Okay. Thank you.

Chair Furfaro: By the way, Mel, they do that at hotels too for frequent stay. Mr. Hooser, you have the floor.

Mr. Hooser: Thank you, Mr. Hunt, for the discussion. I think it is an informative and important discussion to have. Frankly, I think it just reinforces Mr. Wells' testimony that he made earlier today that we need a complete overhaul. This is no blame on anybody. This is what happens after years and years of piecing things together. I keep thinking about the slide with all of the important dates and you mentioned that these are all dates we need to pay attention to. There were twelve (12) of them up there or something... there was a whole bunch. I think we need a complete overhaul. I would be happy to work on that with the Administration and with this Council. If we look at the main points— the history is important, I think, in how we came to this place, but I think the people that are here today want to hear about what we are going to do about it and how we are going fix it. At the end of the day, I think an overhaul is important. Let us look at the main points. The main points seem to be the exemptions. Can we put the slide with the exemptions up, please? There are a whole lot of them. They are all well-intended. The deadline for those exemptions is September 30th. Is that correct?

Mr. Hunt: Correct.

Mr. Hooser: I have been on the Council for a while and I get any envelopes like everybody else. So I go to apply for an exemption and they say it is September 30th, but that is not until next to year, so it does not impact this year. Is that correct?

Mr. Hunt: If you are applying for this year, your next tax billing, which would be in July, would be the impact of applying for an exemption now. Correct.

Mr. Hooser: So all of those exemptions of benefit will not help anyone with the bills that they have at this point?

Mr. Hunt: Correct.

Mr. Hooser: They would have to know to apply and apply for September 30th for next year.

Mr. Hunt: Correct.

Mr. Hooser: The exemptions section— there are a lot of helpful tools for people there that people are not aware of. I think since we are looking for solutions down the road... not down the road— we are looking for solutions now. Councilmember Bynum and I met with you a couple of days ago or last week about this issue and we are going to be introducing a bill to make those exemptions retroactive. So anyone who applies September 30th for the coming year will be applicable to their year that they are on now... with the billing that we have. Your Administration is able to administer that if, in fact, the Council supported that?

Mr. Hunt: I would likely need additional staff to administer that because we are currently working on the assessments for 2015.

Mr. Hooser: I think everyone should understand that their resources are limited.

Mr. Hunt: Very limited.

Mr. Hooser: Let us say that he needs additional support. I can support that. But is it doable?

Mr. Hunt: Yes.

Mr. Hooser: So those folks, who might have an affordable rental or some kind of other income exemption that did not know about it, could then apply and it would be applied retroactively. They would get a credit or maybe save money in their tax bill. That is a possibility. Is that correct?

Mr. Hunt: It is a possibility. I would think that the most difficult part of administering that would be able to show what the use was as of October 1st of last year.

Mr. Hooser: But if the Council passed a bill like that, which Councilmember Bynum and I will be introducing, then that is a possible way to get immediate relief... we are looking for immediate relief. I just want to make sure that it is possible. The second area is the caps. I agree that I felt rushed this last time and I think we need a long-term discussion on the caps, and take it into consideration that it is a complete overhaul. I want to put that on the side for now. The other big issue that seems to be impacting a lot of people is this use provision where a person has a home, and then they have a little, tiny place that they might use as an office. They checked the form "Office Use," and all of a sudden, their whole property gets designated. That can be done proportionately. Can it not? So we could amend the law, and then ten percent (10%) of the properties is commercial use, then it could be ten percent (10%) commercial and rest could be homestead. We have the ability to amend the law to implement that.

Mr. Hunt: You have the ability to amend the law. To implement that, the biggest challenge I would see in that is if we are going it on a square foot basis or *pro-rata* basis, does that ten percent (10%) of the property represent ten percent (10%) of the property value? It may not. It may be thirty percent (30%) of the property value because it contributes more in revenue or whatever. It is going to become a challenge, especially from the appeals standpoint because how are we going to justify an assessment for a portion of a property that cannot be sold separately that does not have a defined land area? In that situation, we would have to create two (2) separate assessments with two (2) separate classes. You would have an assessment for the commercial and an assessment for the residential or homestead. Both would have separate values and both would have separate tax rates to arrive at that. Defending the portion value would be very challenging.

Mr. Hooser: We do not have to debate it here. We can debate it when the bill hits the floor, but I understand that it might take some work to work out the details. I believe that is a huge source of a problem that we are facing now is people that were not aware, number one. They are filling out the form, checked the box, and all of a sudden their bill goes through the roof. We have had this conversation before where people never really rented it out. They were going to rent it out, so they checked it, and they never rented it out for one (1) month, so there are some inequities in the system that needs to be fixed. No question about that. Chair, I will conclude with this if we could put up the slide of the Administration's proposal. I believe if I can restate it, the Administration and the Mayor saying that all of the increases... everyone had an increase. They would have to pay the first five hundred dollars ($500).

Mr. Hunt: Right.

Mr. Hooser: Any increase above that, they would have to pay seventy percent (70%) of that increase.

Mr. Hunt: Thirty percent (30%).

Mr. Hooser: Okay, for that one (1) year. You had a term up there— I am not looking at the slide now, but you mentioned... that is the slide that lays out how it would impact those categories. I think you mentioned in a previous slide the words you used for the cost of this program. The cost to implement was how much?

Mr. Hunt: Between seven hundred thousand dollars ($700,000) to seven hundred fifty thousand dollars ($750,000).

Mr. Hooser: He did not say lost revenue; he said the cost to implement. That is my point I want to make is that the people in the audience may not understand the nomenclature. The cost to implement is really the loss of money to the County. It is not money that we have to hire people to implement.

Mr. Hunt: Correct.

Mr. Hooser: I just want to make that clear, so that people understand that. This seven hundred fifty thousand dollar ($750,000) estimate is an estimate on the County budget if we gave this relief.

Mr. Hunt: Correct.

Mr. Hooser: Also, Councilmember Bynum and I, in our conversations with you, made it clear that it was not enough and that we intend to amend this to put possibly a two hundred fifty dollar ($250) cap, replacing the five hundred dollar ($500) figure with a two hundred fifty dollar ($250). The maximum increase would be two hundred fifty dollars ($250) and no thirty percent (30%). Do you know what the estimate on the budget that would be?

Mr. Hunt: I believe it is close to two million dollars ($2,000,000).

Mr. Hooser: If we did that, as a Council approved that, that would cost the taxpayers two million dollars ($2,000,000), but would grant immediate relief to everyone, and then we can have a long-term overhaul discussion and work on next year, if the County wanted to spend the two million dollars ($2,000,000) basically. So two million dollars ($2,000,000) is your estimate of the impacts of that particular measure?

Mr. Hunt: Close to that.

Mr. Hooser: Okay. Thank you very much.

Chair Furfaro: JoAnn, I am going to give you a chance before I take the floor, and then I plan to take a break at 11:00 a.m. and let the people in the audience get copies of the presentation. JoAnn, you have the floor.

Ms. Yukimura: Thank you, Chair. Thank you everyone for being here today. Thank you, Steve, for all of the work that you have done. I think you pointed out that the cap really created a lot of problems in terms of inequities and the longer that it goes on, the bigger people's taxes will be when we remove it, and that has been the problem. So you have really tried to, with Councilmember Bynum's help and Chair, remove the cap, but tried to make it in a way that people could adjust to it. I think we see that the publicity has been deficient, not from lack of effort, but it just has not worked and people have not been aware of the remedies that are available to them. It is really good that we are having a chance to understand it. The first question that I have is— you have in your PowerPoint the fact... I think it is on PowerPoint slide number 11 that— we do not have to show it, but tax rates for residential and vacation rental categories were increased. Did the Administration recommend tax increases to the residential and vacation rental?

Mr. Hunt: Not to those categories. Ours was limited to hotel and resort.

Ms. Yukimura: In fact, it was the County Council that did that and I actually recall that Councilmembers Rapozo and Kagawa wanted to raise it so we could lower the rates on hotels. That was one of the generators of these consequences. Mr. Haraguchi's situation was announced all over the newspaper and it horrified everyone to a person, but you have actually worked with the family. Can you tell us some of the measures that were used so that people might know it to be applicable to their situations to see if— I think it might be applicable to Mrs. Lopez's situation, where she has a family member... I think she said her grandson lives in her ADU. Could you explain how families could use the existing provisions to lower their taxes?

Mr. Hunt: Sure. In the instance of the Haraguchi's property, they have two (2) homes on the property, but only one (1) exemption. So it is currently classified as residential. The second home is occupied by Mr. Haraguchi's son and there are really two options to get that property into homestead: one is a long-term affordable lease. They could lease it to him at minimal rents, as long as it is below the cap amounts for that. They would get immediate relief by getting into the homestead classification just from the Long-Term Affordable Rental. As a longer term fix, what I recommended was looking at a fifteen (15) year lease for them because they have no intention of leaving the property. The fifteen (15) year lease would then entitle the whole property to the Home Preservation Limit, as long as it is homestead and both have owner-occupant home exemptions. The fifteen (15) year lease would entitle the son to an additional exemption off of the property, which in an oceanfront Hanalei property, the exemption itself is not very meaningful, but the fact that it is now eligible because they have maintained the property for more than ten (10) years of having at least one (1) home exemption on that property, they meet all the other criteria in terms of not owning other properties, income qualifications, and everything else. Their taxes will actually go down below what they paid based on the 2013 bill.

Ms. Yukimura: So it will go below what they paid in the previous tax year.

Mr. Hunt: Yes.

Ms. Yukimura: Just so that I understand, there is first the long-term affordable lease.

Mr. Hunt: Correct.

Ms. Yukimura: So it does not have to be a family member. But if it is rented to somebody at below the rates that we have established, then it does not get any extra exemptions, but it gets the homestead tax rate, so the lowest tax rate of three dollars and five cents ($3.05). We are getting some real property experts here now.

Mr. Hunt: If I could take the time to broadcast what those rates are, so the people who are watching and the people who are wanting to know what that is for the 2015 application...

Chair Furfaro: Steve, why do you not go ahead and do that and I will share with Councilmember Yukimura, the particulars on that property that I relieved to the family in writing. Why do you not do exactly that?

Mr. Hunt: For the Long-Term Affordable Rentals for the upcoming year, which has a deadline of application of September 30th, as long as you have a one (1) year lease in place that begins on or before September 30th: your rents for studio where tenant pays all the utilities is one thousand twenty-six dollars ($1,026) a month. For a one (1) bedroom, it is one thousand one hundred eighty-one dollars ($1,181) a month. For a two (2) bedroom, it is one thousand two hundred ninety-one dollars ($1,291) a month. For a three (3) bedroom, it is one thousand five hundred fifty-two dollars ($1,552) a month. For a four (4) bedroom, it is one thousand six hundred thirty-three dollars ($1,633). For a five (5) bedroom, it is one thousand eight hundred seventy-five dollars ($1,875). Anything above five (5) bedrooms is still one thousand eight hundred seventy-five dollars ($1,875).

Ms. Yukimura: Is that on the website?

Mr. Hunt: Yes.

Ms. Yukimura: For some places such as Hanalei, those are very low rents and unlikely, unless it is a family member— I have actually been working with the realtors to see if we could actually have higher rental levels in high-priced places that would qualify for low, affordable rental. This is a provision that we put in place a couple of years ago and Councilmember Bynum was a really big advocate of it, but it came from the Administration as an effort to reward or give incentives to landlords to rent property at low rates or not penalize them if they are renting at low rates.

Mr. Hunt: Correct.

Ms. Yukimura: So that is our first effort. We may need to tweak it, but it is a really good thing in terms of trying to have private sector help in providing affordable housing or at least giving some tax relief to those who are already doing this act of community-mindedness by renting at low rates.

Mr. Hunt: Yes.

Ms. Yukimura: Okay. The other one that the Haraguchi family qualified for, which some people may qualify for, is...

Mr. Hunt: The Home Preservation Limit, which is actually a tax credit program.

Ms. Yukimura: Okay, so explain the Home Preservation Limit.

Mr. Hunt: Okay. For the Home Preservation Limit, you have to have lived in your property and maintained an exemption on that property for a minimum of ten (10) years.

Ms. Yukimura: Okay, ten (10) years.

Mr. Hunt: I will get the exact bullet points to cover them all.

Ms. Yukimura: So lived in that property as an owner-occupant for ten (10) years.

Mr. Hunt: Yes, ten (10) year minimum and no break. Those ten (10) years with an owner-occupancy can be considered a family member transfer. For example, if five (5) years in, the grandfather dies and the son moves in and maintains it without a break in losing the exemption— they do not rent it out or do anything, then that ten (10) years is applicable to the family, if you will. So you have to have that ten (10) year minimum. It has to be eligible for homestead, so you cannot have a vacation rental as a second home. You cannot be generating income other than... really it is a family member. If it is a long-term lease for fifteen (15) years, that is the only one that would qualify as homestead under this provision. Both dwellings, in that case, would have to have home use exemptions intact. The gross income between all owners— so if you did a fifteen (15) year lease and made that tenant an owner for taxation purposes, we would include the income from that tenant as part of the gross income calc. The maximum again is one hundred thousand dollars ($100,000) gross income to qualify. The property has to have a net taxable value, which is the gross value, less all of their exemptions, of at least seven hundred fifty thousand dollars ($750,000) or more. So this is really to take care of the extremes.

Ms. Yukimura: This is for homes in high-priced places.

Mr. Hunt: Correct.

Ms. Yukimura: Okay.

Mr. Hunt: In lieu of property taxes, they pay a percentage of income or a floor. It is a five hundred dollar ($500) minimum tax, but three percent (3%) of the reported gross income from all owners.

Ms. Yukimura: Okay, so whichever is more.

Mr. Hunt: Whichever is higher. It caps at three thousand dollars ($3,000).

Ms. Yukimura: So where people qualify for this particular program, they either pay five hundred dollars ($500) or ten percent (10%)?

Mr. Hunt: Three percent (3%).

Ms. Yukimura: Three percent (3%) of their gross income, whichever is higher.

Mr. Hunt: Yes.

Ms. Yukimura: Okay.

Mr. Hunt: The other is that they cannot own other properties, which is again for some taxpayers, a challenge.

Ms. Yukimura: Okay. This has to be their only hope.

Mr. Hunt: Yes.

Ms. Yukimura: So that may or may not apply to people. There was one more that they could use and that would be simply giving him a fifteen (15) year lease makes him an owner... he gives his son all of the benefits of an owner-occupied home, and therefore, they would qualify for exemptions twice because...

Mr. Hunt: Again, the main exemption for use— each home independently can apply for income exemptions, so they could qualify for income.

Ms. Yukimura: They will also then regain the lowest tax rate because when you had another home/dwelling, you lose that.

Mr. Hunt: It becomes residential...

Ms. Yukimura: Unless you leave it vacant?

Mr. Hunt: No. If it is vacant, there is no established use and it is available for rental, so the default is it is residential.

Ms. Yukimura: Okay, but if both people have owner-occupant status, they get the lowest rate of three dollars and five cents ($3.05).

Mr. Hunt: Correct.

Ms. Yukimura: That got restored to Mr. Haraguchi?

Mr. Hunt: It will be.

Ms. Yukimura: Okay. Or anybody in his situation, which they may not qualify for the Home Preservation category, but they could still get back the lowest tax rate.

Mr. Hunt: If they do the affordable rental.

Ms. Yukimura: Okay.

Mr. Hunt: One more caveat to the fifteen (15) year lease is that it has to be recorded at the Bureau of Conveyances. There is a recording requirement for that.

Ms. Yukimura: Okay.

Chair Furfaro: We have ten (10) minutes before we have to go into a break.

Ms. Yukimura: Okay. I have two more questions.

Chair Furfaro: I get none.

Ms. Yukimura: This question about "how do we inform people about these various programs?" For one thing, because people's taxes were so low, nobody really cared, right? Nobody bothered about what the tax provisions were. We found that out— I have been part of this... Steve, you were also a part of this group in 2004 along with Walter Lewis, Mike Dyer, and I, and we addressed the issue of the cap.

Chair Furfaro: By the way, I was involved because I was the Finance Chair then.

Ms. Yukimura: Excuse me, Chair.

Mr. Rapozo: I was involved because I was a resident.

Ms. Yukimura: But just so we know, we have been struggling with this for many years. We found out that in Florida, where there is this cap, and the taxes were really, really low, nobody cares what their county government is doing and the level of participation... because nobody really has a stake in what is happening. Now when you have to, you need to know. Let me tell you what is at stake are your parks, roads, and police service. We do not always deliver them very well, but if they were not there at all, your property would have much less value than it does now. I think one of the questions should be asked to everyone is, "How would you like to be informed and what is the best way to inform you?" You did send a flier to every single taxpayer, right?

Mr. Hunt: Yes.

Ms. Yukimura: It was sent with all the assessments. If you got your assessments, it was in that file.

Mr. Hunt: It was sent in the 2013...

Chair Furfaro: To the audience, please let this dialogue happen between the Councilmember and the Finance Director.

Ms. Yukimura: Thank you. For those of you saying "no," please let me know in the break. I would like to know.

Mr. Hunt: Let me clarify— it was sent in 2013, so with the 2014 assessments, there was no additional information provided.

Ms. Yukimura: Thank you for that clarification. That was a major problem and we apologize to all of you. I think if there was a big mistake, and I take responsibility as a Councilmember, it was in how we notified people. We have to figure out how to rectify that. I think there is also a problem with the surveys that went out because I think they resulted in inaccurate classifications or changing classifications that did get registered. So I guess I want to ask your department to look at use of that tool. I know you were trying to use it as a way to do your job better, but there is a real problem there, so if you have any comments now or maybe you want to go back to your staff and work on that particular issue. Do you know?

Mr. Hunt: It is something that we are actually working on Administrative Rules for because frankly, we did not know... there were so many gray areas that cross between uses and how we are going to define the differences between those gray areas, so part of that is waiting to see what uses were reported and what uses were established. Things like agritourism have not even really come to the table yet, but how do you classify that? Homestays are another one. Is that different from vacation rental? A lot of that still needs to be worked on as part of the use classification.

Ms. Yukimura: Okay. I think we have to recognize that the survey is a way that we communicate with people and we have to be very clear in how we communicate with people. The last question is if you gave me a figure that if we divided all the parcels on this island into the real property taxes that we collect, what is the average?

Mr. Hunt: I do not want to misquote this.

Ms. Yukimura: I think it was something like five thousand dollars ($5,000).

Mr. Hunt: It is roughly about three thousand one hundred forty-five dollars ($3,145).

Ms. Yukimura: Okay.

Mr. Hunt: Three thousand one hundred forty-five dollars ($3,145) plus or minus.

Ms. Yukimura: Yes. Obviously, they are large parcels and small parcels and that is a really rough thing, but if I talked to my sister in Seattle or my father-in-law in Chicago, for comparable-sized properties and values, they are paying higher taxes than we are. I think it is like "what is the cost of running this County?" Yes, there are issues of waste, but the average is three thousand dollars ($3,000) and some of us are paying less than that because hotels may be paying more and commercial may be paying more, etcetera, because they can pay more and they do maybe generate more use of our resources: our roads, our fire, our police, and etcetera. But that is kind of a rough benchmark, and it is true (inaudible) because this is *ad valorem*, the higher properties pay more. That is it. Thank you.

Chair Furfaro: Steve, I have about five (5) minutes here before we break. To the audience, I want you to know that when we take a break, the Administration's presentation is available in hard copy form on the table. Help yourself. There is a worksheet that the Council has in front of you that talks about the kind of tax credits that are available, along with another pile of actual applications that Steve has been referring to. Now, I have a couple of questions from myself for you, Steve.

Mr. Hunt: Yes, Chair.

Chair Furfaro: First of all, I want to thank Mr. Kagawa for joining me to sponsor this forum. This is a way to get information out, so I want to thank him for joining me in doing that with this informational piece. I also want to make sure that we all understand, as the Administration, some of the proposals that you have talked about in your presentation, I will entertain on the agenda on September 10th, along with proposals that come from Members of the Council. I am working with the staff to find a way that we could fast-track some of these new pieces, should they pass. Both you and Mr. Kagawa were not here during 2006 and the Kuleana Bill. That was my Bill, as well as the cap; that was my Bill as well. But I keep hearing from the Administration the ability to pay a lot of things and I just want to make sure that we all understand that those caps in the Kuleana Bill, for me in my philosophy, it was introduced for the ability to own. We had people in Wainiha, (inaudible) Valley, Hā'ena— they did not have a very substantial home, but their property taxes were going up to the point that they could not pay. I want to confirm that is my reason for introducing it and you concurred that was one of the benefits.

Mr. Hunt: Yes.

Chair Furfaro: It did help people own. The other part to that was certainly the concern that when the market is accelerating like it was, I believe, and it is my math, that from that 2006 period and the Tax Task Force, which people like Mike Dyer served on, confirmed that we actually... I am not going to use the word "discounted," but we deferred almost seventy-one million dollars ($71,000,000) worth of taxes for people that could qualify for the cap. It was a savings to them. Would you agree with that amount?

Mr. Hunt: I believe those are accurate numbers.

Chair Furfaro: I am pretty much in the ballpark. But the problem was when we had the cap was as the market declined, we did not have anything that said, "No, if you bought into the cap, that was your tax and it goes up every two (2) years," and, in fact, we might also tie that to the Consumer Price Index (CPI). That did not happen, so when real estate values fell, the cap really turned out to be a big challenge for the Administration. The challenge needs to be you get your tax capped, but in fact— and you might go with the Consumer Price Index going forward because we have old timers. We have *kūpuna* that they know they are only going to get a one point nine percent (1.9%) increase on their social security. That is it. That is the only increase they are going to have. In the cap, that was a problem. Again, I want to come back to not the ability to pay, but for me, the ability to own. These are close families on the north shore for me. My family is 1/16th Hawaiian, but the reality is that we have plenty of family that was finding themselves that they could not hold on to their property and that was an immediate benefit for them. Also, it helped with the Kuleana tax and that was something that was discussed in the Tax Task Force. Maybe we should revisit those things, but we have to be very careful with anything that we do with the cap going forward. If we go through a declining cycle again, it is going to hurt the County of Kaua'i. If you buy into a cap, you have to buy into that permanently having that increase tied to the Consumer Price Index. In my opinion, I also want to say very sincerely to the Administration, thank you for being here and spending time with us today. I am going to take a fifteen (15) minute break, ladies and gentlemen. Please be back in fifteen (15) minutes. We are going to allow people to pick up copies of what was shared so far. We are on a recess.

There being no objections, the meeting recessed at 11:12 a.m.

The meeting reconvened at 11:29 a.m., and proceeded as follows:

(Mr. Rapozo is noted as not present at 11:29 a.m.)

(Mr. Kagawa is noted as not present at 11:29 a.m.)

Chair Furfaro: I am making another decision as Chair. I am going to go to an item that I put on the agenda for Councilmembers if there were any presentations. I only have one presentation that was requested to be made and I am going to give that to Mr. Bynum. I am going to allow Mr. Bynum twenty (20) minutes for that presentation. When Mr. Bynum is finished, we are going to go to public testimony, so I have kind of shifted the order here. Then at the end, I am going to invite the Finance Director back, so we can have individual question and answer for him. On that note, we have enough members to start. Mr. Rapozo had to leave shortly for a personal matter, and then somewhere in the next twenty (20) minutes or so, Mr. Chock will be stepping out, but everyone will be back for the public testimony portion. On that note, Mr. Bynum, you have the floor.

Mr. Bynum: Thank you, Chair. I am going to go into my fast forward mode because I have a lot of information to share. To the best of my ability, what I am sharing is public record, figures from our audited reports and from our public record of what we actually did. In politics, there is a lot of rhetoric. A lot of people say a lot of things and you can even say things that are accurate that do not enlighten. I wanted, to the best of my ability, present what we actually did as a County and the decisions we actually made that led us to this.

If we go to the first slide: I want you to look at the red and green lines. That is our General Fund income versus Expenditures for the last fifteen (15) years. You can see that the County of Kaua'i grew dramatically. The County expanded in size dramatically. This tells you about the Department of Parks and Recreation and Office of Boards and Commissions that was created by the taxpayers that substantially added to our costs. But no question that the County grew. There is no question that the economic downturn happened— the tide started turning in 2008. We knew that was happening. Now, so you look at the spending. This red line is spending. It went up, up, and up. This is right when Mayor Bernard came in and you have heard people say that we have spent the surplus, but it is not true. We did not spend it because Mayor Bernard gave us two (2) years where spending actually went down. That is very difficult to do because you have unions that get raises and a lot of fixed costs. We did respond to this economic downturn by tightening the belt by looking at savings. Look at what happened to revenue. Revenue was going up. This little bump down here is the result of the cap coming in place, primarily. It did protect a number of homeowners, but at the expense of others. As a class, that relief was short-lived and that is why we needed to revisit it. So you look at this green— look at this right here. Let us go to the next slide. This is the last few years since 2008. The General Fund revenues went down dramatically. There is the three (3) years that the Mayor actually lowered our spending each year. Look at what happened and this gap— that is the hole because we were not managing our government. We were not managing our revenues. Then we had a second hole. This is the TAT effect over the last three (3) Fiscal Years. The first three million dollars ($3,000,000) million; then seven million dollars ($7,000,000); then this year nine million dollars ($9,000,000); and this year we are dealing with right now, that is last year at nine million dollars ($9,000,000). So we had decreased revenue, spending flat; decreased revenue chipping away. Let us look at that a little bit year-by-year. How did we deal with that? In 2008, we had a four million dollar ($4,000,000) difference between spending and revenue. That should have been a red flag for us. The General Fund Balance at that time was forty-five million dollars ($45,000,000). What significant tax proposals came in that year? There was no rate change, but there was a Combat Veterans Tax Credit that Councilmember Rapozo put forward that passed, and there was a major tax reform proposal by Mayor Baptiste called "Real Property Initiative."

Ms. Yukimura: You have "Combat Tax failed."

Mr. Bynum: Yes, it was a real property tax proposal— it did not fail, it passed. I am sorry— that is an error. It passed unanimously. However, Mayor Baptiste came here and told us, "Hey, the cap is not working for us. It is protecting some people." Let me tell you right now, we set the cap based on 2003 assessed values and they were lousy. There were neighborhoods that got capped so low that people paid twenty-five dollars ($25) or thirty dollars ($30) for the next fifteen (15) years. There were other neighborhoods that got reassessed that year and got capped higher. How much the cap affected you was based on luck. Were you in a lucky neighborhood or unlucky neighborhood? Say your child, your son buys a property, their taxes will get reset because they were not protected by the cap and that caused these inequities and we will see how big they were in a minute. In 2008, we know the term is coming. Mayor Baptiste comes to us and says, "We have to lower taxes for all of the people who live and work here. The hotels and resorts have not been paying enough. We need to lower taxes and we will eliminate the cap by lowering everybody's taxes, so when we remove it, it will not be a problem." The cap was one way to deal with this, but our Tax Ordinance requires this Council to set the tax rates every year. If the values go up, we should reduce the rates, so you do not get an increased bill. Our Ordinance requires this body to do that calculation each year at budget. I supported this. This would have reduced taxes by thirty-five percent (35%) for the people in the homestead...

Ms. Yukimura: You are talking about...

Mr. Bynum: I am talking about Mayor Baptiste's proposal in 2008 that was rejected by this Council. The vote was... I think there were four (4) in support and it was a long story. The reality is that Mayor Baptiste identified these inequities and gave us a solution, but we chose not to do it. So here we go into the next year; no changes in the rates or no significant tax proposals. Our revenues were closer. We only went down about one million dollars ($1,000,000) that year. Okay. So then we go to the next year. We are losing revenue now in 2010. We are losing revenue and I will show you in a minute where we lost it. I proposed that we increased the hotel tax rate sixty cents ($0.60) because their taxes were falling. Assessed values were coming down, we did not adjust the rate, and that meant hotel and resorts paid a lot less. This sixty cent ($0.60) increase would not have been an increase in their tax bill. It just would have kept us from losing more revenue. We are just kind of cruising along here, watching these things happen, and not doing anything about it. Every year, the Mayor put forward a proposal that had no rate changes. It had nothing to address this problem. What is the problem? Here is what I showed when we established the three dollars and five cents ($3.05) tax rate. This is what we are talking about here. At three dollars and five cents ($3.05), these are the market taxes on a half a million dollar ($500,000) house; the red dots. The changes that you see are about senior discounts or low-income things that we understand, but people are in a reasonable range. This lucky guy got capped at five hundred seventy-two dollars ($572) in 2003. Now, this guy is paying one thousand seven hundred dollars ($1,700) because he was in an unlucky neighborhood or they purchased the home later and were reset at a different— so this is the inequities that we were talking about. What I proposed one year was, "Let us just do what Baptiste said. Let us lower taxes for everyone." These dots are taxpayers. These are real people. I can put a thing on there and find out who they are. What Baptiste said is, "Hey, let us do this. Let us lower the lines down further, and then give these people"— because look at this guy. How do we justify this guy paying one thousand seven hundred dollars ($1,700) and an equally valued home at five hundred dollars ($500)? This is all over the map, but the Council said "no." So now when we come up to 2011... now the gap between Revenue and Expenditures is getting huge: seventeen million dollars ($17,000,000) in one (1) year. That means our Fund Balance is going to start going down because when there is a gap, how do you fill it? You fill it with your reserves, and we had substantial reserves in 2011. Finally, people were paying attention. Real property rates— nobody is still trying to change the rates, but there were two proposals introduced: one was by me to increase the exemptions, right? They were at forty-eight (48) and I wanted to go to ninety-six (96). That would have meant tax relief for people who live and work here. It did not happen. The Administration did introduce tax reform bills late in that year. From 2008 to 2011, we had all of this lost revenue, right? Let us look at it by class. This is single-family residential without homeowners. These are people who use their rent... they own their home, but they use it for commercial purposes; long-term rentals. Those people had a six million dollar ($6,000,000) reduction in three (3) years. If their taxes would have stayed the same, they went down six million dollars ($6,000,000). These are apartments or vacation rentals. They went down four million dollars ($4,000,000). Commercial and industrial— not much change. Agricultural land: that is the big landowners that own huge parcels and other agricultural lands. Their taxes went down six million eight hundred seventy thousand dollars ($6,870,000). If they would have paid the same as 2008, but they paid six million eight hundred seventy thousand dollars ($6,870,000) less. Conservation: less homeowners. Hotel and resort came down two million six hundred thousand dollars ($2,600,000) during that period. What happened to the residents? How much did we come down during that period? We went up two million one hundred fifty thousand dollars ($2,150,000). So the three (3) year difference: twenty million dollars ($20,000,000) million of lost revenue that went to non-residents; people who live elsewhere. There might be a resident who owned the property, but they were using it for commercial purposes, right? I had it with that. I came here every year and put these charts up every year and said, "Hey, what is going on?" So I introduced Bill No. 2425 in 2012 when we lost seventeen million dollars ($17,000,000) and what I said at the front of the year is there was no will to remove the cap. The Mayor did not want to remove the cap. The Councilmembers have made it clear that this cap was now— I am telling you that the cap was protecting some of you at the expense of many others. I do not think you like that. But that cap provides all of this predictability. By 2012, look at these numbers: five million dollars ($5,000,000) to resorts; almost ten million dollars ($10,000,000) to the large landowners here in agriculture, less taxes.

Here is an example that I presented in 2010. You own a vacation rental, paying twenty thousand dollars ($20,000), and your taxes have gone down to seventeen thousand dollars ($17,000). Or this one went from ten thousand dollars ($10,000) to six thousand dollars ($6,000). So people who got just automatically. What would Bill No. 2425 have done? I worked hard with the County Attorney and presented a Bill that would have reset the cap and left it in place. Everybody that had the cap taxes would continue to pay them and the people who were up here would come down and get the cap established for them. Let me show you that graphically again. This is an example that this would have brought this line down much further, right? Let us look at this. That Bill would have said "this guy's taxes comes down to one thousand two hundred fifty dollars ($1,250)." "This guy comes down to one thousand two hundred fifty dollars ($1,250); reasonable. This guy is below the cap; he gets grandfathered and stays there." The taxes just come up gradually two percent (2%) a year like the cap was or this person sells, and then it gets reset at the market rate. I put forward a proposal here that said, "Let us do what Baptiste said. Let us lower taxes for everyone because these hotels and resorts are not paying enough." By this, we were losing money from that sector. We were losing ten million dollars ($10,000,000) that visitors used to pay and we got that from you, right? I disagreed with that and I put this Bill forward. JoAnn voted for that Bill and five (5) Councilmembers did not. That proposal at the time said, "Let us also reduce the tax rate. Let us do the homeowners exemption and reduce the rate to bring the line down," like this two dollars and twenty-five cents ($2.25) rate would have done. This blue line is what we were told for five (5) years was the impact of the cap; that it dramatically decreased taxes, but then in 2008, they started going back up. That is why I put this proposal forward. It is like the cap is not working for everyone anymore. It is not doing that.

Later, I demanded that we see all of the data for all homeowners and when I got that data— because I wanted to see how these changes impacts each and every one of you individually. I wanted to be able to plug in a name or a Tax Map Key (TMK) and say, "What is that taxpayer going to experience in order to make informed decisions?" We found out that the actual numbers, if you include all of the homeowners under the cap, it reduced taxes from eleven percent (11%) to ten percent (10%), but then right way started going back up. We were not even given accurate information, so by 2013— so I put this proposal forward that would have kept the cap in place and grandfathered everybody else in, but I could not get the votes. Then we did that year— I was also proposing lowering the tax rates like I had repeatedly, and this year, the Council agreed. At our budget, we set the three dollars and five cents ($3.05) tax rate that reduced taxes about one million four hundred thousand dollars ($1,400,000), I think. But I was seeking a five million dollar ($5,000,000) adjustment, not one million four hundred thousand dollars ($1,400,000) to get justice. So now all of a sudden, you see rate changes happening. This is the one, homestead class went from— now, Mayor opposed that. We would not have gotten those tax reliefs. This Council agreed on a 4:3 vote to lower the taxes. That is the only tax decrease that the homestead class has seen in all of these years. Who voted for this and who voted against it is public record. Other changes were made because we used to have land and there was some increase, but these were kind of revenue-neutral for hotel and resort. No changes in these others. But then you start seeing the things that Steve was talking about today: the targeted tax relief, the minimum real property tax, or low and moderate income. That same year, I tried to reduce the rate from three dollars and five cents ($3.05) to two dollars and twenty-five cents ($2.25). That is two (2) years ago, right? Remember these charts? I said, "Let us do this. Let us bring taxes down because we are in the reset year." So 2013 though, this rate reduction proposal from three dollars and five cents ($3.05) to two dollars and twenty-five cents ($2.25), failed 3:4. Councilmembers Hooser and Yukimura joined me in that proposal just two (2) years ago. The Council rejected the idea of grandfathering everyone, so there were no increases. I said, "Let us lower the rate for everybody, so at least the increases are fewer people and less dramatic." Unfortunately, that did not pass. Remember I said that Mayor Baptiste wanted to change taxes in 2008? This is a slide from what he presented in 2008. It says "equal and fair treatment of first time homebuyers versus PHU program." We had dramatic testimony here. Home values actually fell. Your taxes kept going up and everybody else went down, but our young people— some of them could have gotten homes then and you look in the Multiple Listing Service (MLS) listing it says their taxes are seven hundred dollars ($700). They go to their mortgage guy and say, "Hey, I can qualify for this loan," and then they find out that the taxes will actually get reset to two thousand dollars ($2,000). Your taxes are going to be one hundred dollars ($100) a month more than this person and suddenly could not qualify for the loan. This has real world impact when you have these huge discrepancies. He wanted to put the homeowners exemption at three hundred (300), three hundred twenty-five (325), and three hundred fifty (350). That is a progressive tax system that says people that have modest homes and low-income are going to pay the least. People that have large, huge homes that are valued at millions will pay a little more. That is when our exemptions were only forty-eight (48). He gave us this proposal. He said, "Look, I am proposing that homestead homeowners go down thirty-five percent (35%). How do we pay for that? Hotels go up twenty-five percent (25%). Apartments, which are vacation rentals, go up fifteen percent (15%). Improved residential that is not owner-occupied that is used commercially, goes up twenty-one percent (21%), but we will reduce taxes for people who live and work here. This proposal failed and I have been trying to do a version of this proposal ever since. For one example, this is what the cap did: this is a nice home in Līhu'e, a real place, five hundred twenty-four dollar ($524) taxes and that went up five hundred dollars ($500). That is why people were screaming. That is when the cap went in place because of this increase. That did not have to happen. Remember our Tax Ordinance says that if the values go up, Council, set the rate accordingly, so that the bills do not go up. Well, we did not do that. We did not change tax rates in this County for like thirteen (13) years. We were asleep at the wheel. But we protected this homeowner and you can see what their taxes did, predictable; all those things that we like...

Mr. Sato: Twenty (20) minutes.

Mr. Bynum: But this is what happened to the market tax. Now your son buys a home, the neighbors are paying one thousand two hundred dollars ($1,200), but he is paying two thousand fifty-seven dollars ($2,057). That is why this happened. In order to do that, we had to have this credit. I liked that idea. That is why I said, "Let us reset it and make more equitable on current values and make it work for new people going forward, but protect those people below." But then— this is in the public record: Councilmembers at this table said, "No, we are not going to do that. The cap is the problem. We are going to get rid of the cap." The Mayor came back here with a proposal to get rid of the cap.

Chair Furfaro: I just want to share with you that the twenty (20) minutes is finished, so if you could summarize.

Mr. Bynum: I want to go back to this. That is our current market taxes at the three dollars and five cents ($3.05) rate. We can lower the rate and change the outcomes. I am not going to have time, but it is over there on the live spreadsheet, but I can look at every one of you and your taxes and tell you what happened this year and why. That is the spreadsheet I gave to every Councilmember here and I showed it on the thing during budget when I said that if we do not make these changes now, you all would be here today. I predicted this. It is in the public record. The Council chose— this year, Councilmember Hooser and I put forward a proposal to reduce the rates that would have lowered the number of people that had increases by over two thousand (2,000) and it would have made those people who had increases have much smaller ones. It is on the public record that Gary and I had two (2) votes for that and we did not have the other five (5). This Council decided to say, "No, we need to protect hotels and resorts more because the Mayor said eleven dollars ($11) for hotels and resorts." Councilmembers around this table said, "No, that is too much for hotels to pay," even though this ten million dollars ($10,000,000) came out from the TAT. That is too much. "We have to protect the hotels, so no tax rate cuts for local people for the fifth year in a row." Thank you. Those are facts.

(Mr. Kagawa is noted as present at 11:45 a.m.)

Chair Furfaro: Thank you for your presentation. Yes, those are facts, but obviously many of us had proposed other tax schemes that we supported on our own and maybe we will have an opportunity for all of us to visit different versions. I would like to get to a point and say Mr. Bynum's presentation is also available for you to pick up from the table. On that note, I would like to start taking public testimony.

Mr. Sato: The first registered speaker is John Palmeira, Jr., followed by Carl Imparato.

There being no objections, the rules were suspended.

JOHN PALMEIRA, JR.: I will make this short. I got my bills the other day and I almost flipped out. I could not believe it.

Chair Furfaro: Excuse me. For the record, this is Mr. Palmeira. Go ahead. I had to introduce you.

Mr. Palmeira: When I saw that I have to pay seven hundred thirty-eight thousand dollars ($738,000) estimated value for a house that is over thirty (30) years old, I think somebody is doing something wrong there. My other house is about three hundred forty thousand dollars ($340,000) that they think it is worth. I have family there. I do not have houses for rent. I have houses for family. When I look at this rate, I am military retired. I cannot get anymore big pays. When I look at this thing the way our house is going, me and my family are going to wind up on the beach one of these days. But I tell you what, we are going to come out fighting. The way this is going, we are going to lose our house. Another thing that I cannot see is why do you put the garbage with our homes? You are putting a lean on our homes with garbage. That makes things more confusing. When you look at your tax bill and see how much you paid for it, and then they add seventy dollars ($70) for garbage and all of that. That does not belong there. Everybody in a business sends you a card or paper that says "pay this." We get it from the Department of Water. We get it from the television bills. We pay the bills one at a time when they send it. The County ought to do the same. Do not make this damn thing so confusing. Like I say, at my house, I have a whole bunch of family there; otherwise, they would be out on the street. They did not have a place to go. They cannot rent anything, so they are living at home with me. My other boy is living in the other old house in Hanamā'ulu because he could not find a place either. All I can say is that somebody better straighten some of this out. This is not right. I do not care what anybody says. When you look at the people, all they want is a better government, not a bigger government, dammit. All we keep seeing is a bigger government. Every time I look in the paper, they are hiring more people. Where are they coming from? The government is doing the biggest hiring in the Country. We do not have enough people working out there. They cannot find jobs. What are we going to do? Our people cannot go to the army. They are taking everybody out already.

Mr. Sato: Three (3) minutes.

Mr. Palmeira: So there will be thousands more of us out in the streets here. Do you guys have any more jobs for them coming out? For the soldiers and sailors coming out? You are full already. This County and the State is full. One of the big reasons is pay raises. When I see in the jobs that are put in the newspaper, they got fifty (50) something people on retirement that are drawing one hundred twenty thousand dollars ($120,000) a year; retirement money. That is all I can say.

Chair Furfaro: Mr. Kagawa, you have the floor.

Mr. Kagawa: Mr. Palmeira, how much did your taxes go up for each property?

Mr. Palmeira: My Olohena house went up to seven hundred...

Mr. Kagawa: No, the taxes you pay, not the value. How much does your bill say on the bottom to "pay this amount?" We can get staff to check on it later.

Mr. Palmeira: For this one here, I paid eight hundred ninety-three dollars ($893).

Mr. Kagawa: What was it before?

Mr. Palmeira: I do not have the other one.

Mr. Kagawa: On your other house, how much did you pay?

Mr. Palmeira: It was not that high before.

Mr. Kagawa: Okay. How much for the other house?

Mr. Palmeira: The other one went up two hundred forty-two dollars ($242).

Mr. Kagawa: Okay.

Mr. Palmeira: See, they all went over one thousand dollars ($1,000) in estimated values on both houses. Neither house is the same. One is thirty (30) something years old and the other is fifty (50) something years old. They are old houses and they were not that much. I tell you what— I will sell you people those two (2) houses for that price you say, and I will help you take it away. Put it in one of the ballparks, and then you have cheap renters there.

Chair Furfaro: Mr. Palmeira, if you would like, I will let someone from the staff to give you information to contact me and I will get together with you to go over your application with the tax office to see if there is another way because you have family occupying your units, if you can qualify for some of the other exemptions. I will be happy to do that with you. I will have the staff get ahold of you.

Mr. Palmeira: If I can, I will have to have you call me and let me know because I cannot get out every day.

Chair Furfaro: I can come to your house. I want to make sure you qualify for your entitlements and I will make arrangements.

Mr. Palmeira: Okay, I appreciate that.

Chair Furfaro: Yvette, please get his phone number for me to make contact with him next week. Thank you. Next speaker, please.

Mr. Sato: The next speaker is Carl Imparato, followed by Glenn Mickens.

CARL IMPARATO: *Aloha*, County Councilmembers, on the one (1) year anniversary of your repeal of the property tax cap. My name is Carl Imparato. The key public policy question before the Council today, I think, is a really simple one: "Should each homeowner's property taxes be based primarily on what the homeowner paid for his or her home or should homeowner's property taxes be based on what others, including future investors and speculators, later pay for other houses in the neighborhood?" Every other fix that we hear about like exemptions, phase-ins, home preservation credits, and et cetera, are by comparison, insignificant and every other fix of this nature will prove to be an ineffective band-aid when property values escalate, as they will, during the next real estate boom. What we are seeing this year is just the tip of the iceberg. The problem is that the old *ad valorem* tax system that was discarded in 2005 and reinstated in 2014, did not protect homeowners from large unfair tax increases in the past, and it cannot protect them as real estate prices jump in the future. That tax system is simply bad public policy. Its foundation is diseased. Its foundation is the questionable premise that a homeowner's property taxes should be based on what newcomers pay for houses in the area years and years later. It establishes homeowners' property taxes based on the whims of real estate markets, speculation, and international demand for Kaua'i property. Almost by definition, the *ad valorem* tax system is going to result in large, unpredictable, and inequitable increases in property taxes when land values escalate rapidly due to international demand, investment real estate speculation, and other market forces. By definition, it will always inequitably shift property tax burdens for some other neighborhoods to other neighborhoods based on those same external forces. The *ad valorem* tax system is an anachronistic system that was soundly reject by two-thirds of Kaua'i's voters in 2004, and for that reason alone, it was wrong for the County Council to reinstate it last year in defiance of that clear public sentiment. I cannot think of any other tax system that works that. Sales taxes are based on the actual prices of goods and services bought. Income taxes are based on what a person actually earns and not what other people in the same occupation earn. Capital gains taxes are paid on actual real-life profits. Motor vehicle taxes are not based on what other classic car buyers are willing to pay for my old car. One Councilmember stated earlier this month that it is essentially okay that market forces drive property taxes. Now I agree that market forces are in general very difficult to control, but that precisely why it is wrong to base homeowners' property tax...

Chair Furfaro: That was your first three (3) minutes. Please continue.

Mr. Imparato: That why it is wrong to base tax policy on market forces as the *ad valorem* system does. It makes much more sense for the foundation for tax policy to be based on something more equitable and controllable, such as a cap on the annual increase in property taxes. It is very ironic and inconsistent that several of the Councilmembers have been arguing for the past several weeks that the proposed "Pay As You Throw" system is equitable because one pays for service based on what one uses. Those same Council people want the *ad valorem* system where one pays for services not based on what one uses, but based on what somebody in the real estate market paid for the house next door to you. It is not consistent. That system is not equitable. The solution, I think... you need long-term property tax reform, and long-term property tax reform should give serious thought to a property tax system like "Pay As You Throw," assesses property taxes based on the cost of the services consumed by a household: a five (5) bedroom house here and a five (5) bedroom household in another neighborhood— well, they use the same services, so they should pay the same possibly. But I am not advocating that; I am advocating something in between; something far less innovative, which is a return to a system in with each and every homeowner's property tax is based on what the homeowner paid for his or her home. Escalated for reasonable inflation— for example, two percent (2%) per year plus "x" percent to account for exceptional increases in the County's budget. I am advocating that you return to the system that the system in which a homeowner's property taxes are based on what he or she paid for his home, not only what other corporations, real estate investors, or speculators later pay. That kind of system is stable, predictable, and is what homeowners need. It is simple. There is no reason why it needs to be complex. There is no reason for this absurd home preservation tax limit, which is based on very arbitrary and unfair premises. That system will produce sufficient revenues for the County, but in a transparent way because the County Council would decide every year what the "x" percent factor is to increase above the cap. The only arguable downside of a system that bases property taxes on the purchase price of the home is the one that Councilmember Bynum has raised, which is that later homebuyer's taxes may indeed be higher than the taxes of the person who bought a similar home five (5) years earlier. That is an inequality; that is not an inequity. We have to remember that the system protects the new homeowners because the new homeowners, basically five (5) years down the road, are protected from the next round of real estate increases. Everybody gets protected: new homeowners and old homeowners, when they are paying taxes that are based on what they paid for the house plus reasonable inflation. In conclusion, I am asking that the Council focuses its attention on the big-picture and address the real problem, rather than trying to come up with little mitigations of the damage and half-baked measures that are only going to work for one (1) year. You need to address the underlying problem.

Mr. Sato: Six (6) minutes.

Mr. Imparato: The *ad valorem* system is simply inequitable, cancerous, and needs to go. You cannot keep placing band-aids on it. I ask that you reinstate, refund, and reform. Reinstate the cap on annual increases in homeowner property taxes, refund or reverse the large increases that we saw in the 2014 tax bills, and only after that, consider true reform; not a return to this *ad valorem* system. Get rid of this system. It does no work. Do something that is more innovative and that really protects Kaua'i homeowners reasonably and equitably. Thank you.

Chair Furfaro: Please put your hands up if you support that testimony. Mr. Chock, you have the floor, and then Mr. Bynum.

Mr. Chock: My only question was in terms of the scenario that you are posing, do you think it is fair that if the market drops, as it typically does and at the prices that they are at the low-end, should be valued the same way... not valued, but rather taxed the same way?

Mr. Imparato: I am not exactly sure, but let me try to respond to what I think you are asking. When the market dropped, let us say properties that had a capped value of five hundred thousand dollars ($500,000), but the assessed value was one million dollars ($1,000,000). If the market dropped to eight hundred thousand dollars ($800,000), the houses that were capped until their taxes went to a level consistent with an eight hundred thousand dollar ($800,000) house, their taxes continue to go up. For example, my property taxes continue to go up during the recession, which was fair... until the... what I paid for my house plus reasonable inflation, year-by-year inflation, actually hit the true market value, I should continue to pay more. That is the way a rational property tax cap system works. That is the way it works in California and that is generally the way it works here, except for some very strange ways that people have implemented it here. For example, you have these other credits, where if you for example had the income circuit breaker based on your income, your property taxes might drop one year, and then the next year you make five million dollars ($5,000,000) or whatever it is. Well, your taxes got capped at that low level. That was a strange, inequitable, and foolish way, in my opinion, to implement that sort of thing. That is what created some of the inequities that we supposedly saw. I think a rationally, managed properly tax system with a cap would work much better than what we had and would require people who were paying below market rate taxes to continue to pay higher taxes during the recession until their houses hit market rate.

Chair Furfaro: Mr. Bynum, you have the floor next.

Mr. Bynum: Thanks as always, Carl, for your thoughtful testimony. If assessed values go up, does that automatically lead to increased taxes?

Mr. Imparato: It does not have to lead to increased taxes if, as you have said, that the County basically wants to reduce the tax rate. But the problem is that what that does, reducing the tax rate, shifts the tax burden then from the neighborhoods that have not experienced the major price appreciation to the other neighborhoods. We have situations now after the tax "reform" of last year, where houses that at two hundred fifty thousand dollars ($250,000) or three hundred thousand dollar ($300,000) assessed values pay close to zero taxes.

Mr. Bynum: That is correct.

Mr. Imparato: Is it equitable to say that people that use the same amount of services— I will go back to "Pay As You Throw" here now— some people should pay nothing for the service and other people should pay through the nose because they happen to live in a neighborhood where external speculation has driven up the prices. I do not think that is equitable.

Mr. Bynum: But you know that when assessed values... you know that our Tax Ordinance requires to us set rates every year.

Mr. Imparato: Yes.

Mr. Bynum: And that we are required, as the Council, to do an analysis and set the rates.

Mr. Imparato: Yes.

Mr. Bynum: Do you know that we also went seventeen (17) years without changing the rates?

Mr. Imparato: Okay.

Mr. Bynum: Okay. My point is if you wanted to reinstate the cap— when we did it last time, we said, "Based on your 2003 assessed values, here is your cap." How would you do it now? If you wanted to reestablish it, what would be the baseline?

Mr. Imparato: At the easy way to start this is to say we just undo the damage we did in 2013.

Mr. Bynum: Okay.

Mr. Imparato: We still have the 2003 baseline now. If one wants to make the argument that there were certain neighborhoods that were tremendously inappropriately reassessed in 2003, then I think one needs to target a solution there, which says because we can show, because this is the claim, that in 2003 neighborhood "x" was under-assessed and undervalued, then possibly there is a legitimate rationale to go back to those neighborhoods and say, "We are going to redo what should have happened in 2003." If that cannot be done, I would say that we live with the fact that some people got a good deal by not being reassessed in 2003 because the benefits of having the cap like stability and protection for the future for everyone far exceed the free ride that some people got by virtue of being in neighborhoods that were under-assessed in 2003.

Mr. Bynum: I will close with this because you and I could go on forever. I agree with you that the *ad valorem* cannot control for neighborhood shifts like the north shore, which goes up in value more than Līhu'e. But it can control for changes in the economy and avoid big spikes by managing the rates, correct?

(Mr. Chock is noted as excused at 12:10 p.m.)

Mr. Imparato: It can control the impacts— if the tool that you have at your disposal— the two tools are homeowner exemption levels and the overall tax rate for the class.

Mr. Bynum: Right.

Mr. Imparato: With those tools, you can mitigate or eliminate the damage and the impacts of the market on those neighborhoods that have appreciated less than the average for the island.

Mr. Bynum: Okay. Thank you.

Mr. Imparato: Only for those neighborhoods.

Mr. Bynum: Those are the tools we have: exemptions, which target the relief more at homeowner exemptions, more at low-income and moderate income. I cannot remember, Carl, but you must have been a big supporter of Bill No. 2425 in 2012 because that did exactly that. It said, "Okay, let us reestablish the cap based on credible values and include everyone. For those people who got a better deal, we will grandfather them." So you must have been supportive of that Bill, yes?

Mr. Imparato: My recollection from our conversations at the time was that there were certain aspects of that that were a reasonable thing to do, that basically if one lowered the rates— it would never really amount to a resetting of the cap. Lowering the rates implicitly changed the way the caps would be and it got rid of the gap. Lowering rates had that affect, but it was not a question of, I would say, resetting the cap *de facto*.

Mr. Bynum: That is my word because it left the cap in place, but for those new people based on assessed values in that year, which were much more credible... my point is what you just advocated is exactly what that Bill would have done, and it was a structural Bill. I additionally said that we need to lower the rates to make this work. But basically it said that whatever this Council sets this market rate at this year, the people below are grandfathered and the people above come down.

Chair Furfaro: On that point, I have nineteen (19) people that are signed up to testify. This is time for us to take public testimony; not to share philosophies. You can ask a question and so forth. You can always call up for a coffee and talk story with Carl on philosophy. I do want to make sure, and I have to ask the staff right now, if they are willing to go to 1:30 p.m. Can I get an acknowledgment without the break? At that point, I just want to remind everybody that we will keep our questions very focused, but this period is for testimony from the public.

Mr. Bynum: I am *pau*. Thank you, Carl.

Chair Furfaro: Anyone else for Carl?

Ms. Yukimura: Hi, Carl. Thank you. What happens when you have a cap and the assessed value goes down, but those people with the cap are set at what they bought it at?

Mr. Imparato: There are two ways to implement that: one is to basically say that it stays up there. The other is to say that when the assessed value drops, then that sets your new cap.

Ms. Yukimura: But you are saying that do not base it on value; base it on when people buy, and then you are going to change it for one situation, but not another?

Mr. Imparato: No, I am saying that there are two ways to do that. One way to do is to say that you stay where you were.

Ms. Yukimura: But then the inequities are just tremendous.

Chair Furfaro: This is becoming philosophical now. Thank you.

Ms. Yukimura: Thank you.

Chair Furfaro: Carl, I am having coffee with you next week. Are there any more questions for Carl before I excuse him? Mr. Kagawa.

Mr. Kagawa: Carl, do you think this whole tax— you have been around for a while— do you think it is a complicated or simple problem?

Mr. Imparato: I think it becomes overly complicated by virtue of using the *ad valorem* system. I think it becomes a simpler tax system when one goes to basically paying based on what you paid for something.

Mr. Kagawa: I guess my question is do you not think we should have took a lot more time and at least maybe we would not have this kind of meeting where we have a lot of people asking what is going on?

Mr. Imparato: That is why it was shocking last August that from the time of public hearing to the time of passage of this Bill was three (3) weeks. I do not think anything has gone through Council, in my experience, that fast.

Mr. Kagawa: Chair, I do not think we are going to make that 1:30 p.m. end time. If you times that by five (5) minutes...

Chair Furfaro: Well, some people may want to give their testimony only within the three (3) minutes, but I want to get as much testimony done, and I am going to stick around as long as it takes.

Mr. Kagawa: I do not want to rush them either. We had a Councilmember talk for twenty (20) minutes and to try and rush these people through it— to me, that is not fair.

Chair Furfaro: Well, that is in our rules and we will find ourselves, Carl, probably following up with some questions. I would like to move on with the testimony. Thank you very much for being here. Next speaker, please. Please call the next speaker after that also.

Mr. Sato: The next speaker is Glenn Mickens, followed by Ken Taylor.

GLENN MICKENS: This testimony is from my friend Walter Lewis. He could not be here today, so he asked me to read it for him. I have read his testimony and I agree with it one hundred percent (100%). Let me read it as much as I can. "This workshop involves issues of fundamental importance to our citizens and our governance. It concerns basic questions of fairness and the imposition of the primary revenue source of County income: the real property tax. It arises because of major changes in that law last year, which were made to carry out the agenda of certain government officials without an opportunity for adequate examination by the taxpayers; without sufficient consideration the impact that the changes would have. In my view, the workshop would focus on three main issues: first and paramount importance is the question of whether taxation of the resident owned and occupied properties should be based on the property's value at the time of acquisition or some fixed commensurate point, and adjusted thereafter by a predetermined formula or whether taxation should be based on annual reassessments. There is virtually no disagreement among taxpayers at this point. In 2004, Kaua'i taxpayers were given an opportunity to vote on a measure that would limit property taxes for resident homeowners to the tax applicable in a base year with only two percent (2%) annual increase allowable for future years. The measure was approved by nearly a 2:1 margin. Similarly in 1978, California taxpayers, California Proposition 13, approved a comparable tax law also by about a 2:1 margin. Taxpayers typically acquire their homes with a budget for the purchase price in the servicing expenses as a predominate consideration, and they need assurances that the taxes will not suddenly and massively increase. This comfort can only be achieved by a system that limits tax increases by preset criteria. It is a simple fact. Homeowners predominantly believe that the obligation they have, have arisen out of homeownership, should best be tied to the circumstances prevailing when the home is bought. Usually, the acquisition price also has a significant administrative advantage. I think this is important. At present, our Real Property Tax Department annually assesses to determine current market value of about fifteen thousand (15,000) properties that are resident-owned and occupied. With the use of the acquisition price data, the annual reassessment would not be required. For new owners in most instances, purchase price data would avoid the need for an assessment. A way to save cost to the government and reduce the taxpayer burden is always welcomed. The repeal of the 2013 tax law portion that ended the two percent (2%) cap should be accompanied by a refund to taxpayers of amounts paid greater than the amount that would have been due without the repeal. Second, assuming that the first issue is resolved in favor of the acquisition cost provide a tax base, we must consider what the allowable adjustment annual should be. In both the 2004 citizen measure, the California Proposition 13 and the annual adjustment from the base was limited to two percent (2%). A fix percentage lends certainty and assurances that taxes will not be unduly increased at any time on Kaua'i. On Kaua'i, there are two important additional factors to consider in regard to an allowable tax increase. One, tax revenues must be sufficient to be able to meet budgeted expenses each year. Under applicable Hawaiian State Law, Kaua'i is limited to the real property tax as its primary revenue source and typically, real property taxes generate up to two-thirds of the County's income. Two, the Kaua'i real property tax applied to owner-occupied property only comprises about ten percent (10%) of the total revenues and the real property tax. Thus, in any year that the County required a significant increase in real property tax revenue to comply with its balanced budget requirement, the County could, without any major distortion, seek supplemental revenue from the taxpayers now paying the other ninety percent (90%) of real property tax totals. Because such action could well be considered unfair to taxpayers, other than owners of occupied resident properties, I would suggest that an emergency provision be included. I recommend that the annual adjustment of two percent (2%) be reenacted, but it should also be provided that in the event that the Council makes a determination that circumstances require a further adjustment, that for such year that only in addition to the two percent (2%) allowance, a further adjustment be authorized that would make the total annual adjustment not greater than the percentage increase that the proposed budget is in relation to the prior year's budget. Third, again assuming that the first issue is resolved in favor of the acquisition cost, providing a tax base, the 2014 Home Preservation Tax Limitation Ordinance should be repealed. This would put a merciful end to one of the worst legislation actions ever approved by the County. The defects in this law included all of those mentioned by Carl Imparato's fine testimony at the April 6, 2014 Council Meeting. In particular, it wrongly earmarked for assistance a select few of the taxpayers aggrieved by the repeal of the two percent (2%) cap rather than to aid all of them and an adopted, poorly conceived and ill-defined criteria for eligibility. There does not seem to be any supportable reason for exclusion from the law's benefits for taxpayers with residents having a net..."

Mr. Sato: Six (6) minutes.

Chair Furfaro: Glenn, that is your six (6) minutes.

Mr. Mickens: Okay.

Chair Furfaro: We all have copies of that as well.

Mr. Mickens: Okay. I only got about another paragraph. Can I finish it?

Chair Furfaro: I want you to summarize. We have a lot of other people who want to testify as well, and I have given your allocated time.

Mr. Mickens: Okay. "It should also be noted that the relief to be provided under the Home Preservation Tax law would be measured by the taxpayer's income. All the tax relates to real property. If its amount is determined as the taxpayer's income, it may well be found to be in a net income tax. The County of Kaua'i is not (inaudible) to an active income tax." Last paragraph: "Having held a workshop of..."

Chair Furfaro: I cannot do that, Glenn. We all have copies that. I allowed you to read it and use your six (6) minutes for his testimony.

Mr. Sato: The next speaker is Ken Taylor, followed by Jerry Louis.

Chair Furfaro: Ken asked me to be the last speaker, if possible. Let us go to Jerry Louis.

Mr. Sato: Jerry Louis, followed by Tom LaCour.

Chair Furfaro: Jerry is present. While I am waiting, I have cut off the sign-up sheets. Put a note that Jerry was not present. Next speaker, please.

Mr. Sato: The next speaker is Tom LaCour, followed by Frieda Gayle.

TOM LACOUR: This is really in the neighborhood of a personal problem and my wife and I have been very fortunate to be able to come to the island to live here. We have lived here permanently now for fifteen (15) years. We bought a piece of property on Hanalei Bay shortly after Hurricane 'Iniki, and developed that with our own home and also with a Transient Vacation Rental (TVR). The object of the Transient Vacation Rental is to provide additional income in retirement. My taxes for the 2012-2013 year were six thousand eleven dollars ($6,011). For 2013-2014, it went up to fourteen thousand four hundred eighteen dollars ($14,418). This last year's tax bill for 2014-2015 was thirty-three thousand nine hundred one dollars ($33,901). That is almost ludicrous. I just cannot conceive any properly designed tax bill could put that kind of an increase on anybody's shoulder. That makes the TVR something that is supposed to be providing a little additional income for us in retirement into a complete loss. There seems to be scant justification for that kind of increase. I will not bore you with any more time. If you have any more questions, I would be glad to answer.

Chair Furfaro: You have a question from Mr. Bynum.

Mr. Bynum: Hi, Tom. Forgive me for asking these questions, but I think the public would like to know. Your TVR when you rented it out, what is the rental rate per night?

Mr. LaCour: It depends. It was two thousand three hundred dollars ($2,300) a night during high season and it was two thousand one hundred dollars ($2,100) for low season. I have turned it over to Bali Hai Realty and they did change the rates somewhat, but I am not sure what they are now.

Mr. Bynum: So you have a management company right now?

Mr. LaCour: Yes.

Mr. Bynum: What is the assessed value of your home?

Mr. LaCour: It is around three million dollars ($3,000,000).

Mr. Bynum: Thank you very much.

Chair Furfaro: JoAnn, do you have a question?

Ms. Yukimura: No. Thank you.

Chair Furfaro: Okay. Tom, would you leave your number for me with the Clerk's Office?

Mr. LaCour: I would be pleased to. Thank you.

Chair Furfaro: If you could leave the tax map key number, I would appreciate that too.

Mr. LaCour: Okay.

Chair Furfaro: Thank you.

Mr. Sato: The next speaker is Frieda Gayle, followed by Toni Martin.

FRIEDA GAYLE: *Aloha.* I am Freida Gayle and I did send a letter last night or yesterday. I do not know if you had a chance to review it. It was longer than I wanted it to be, but I did not know how to summarize the hot mess that I ended up in with the Real Property Tax office. The problem was caused by a survey when I went in to file an income and exemption form— to summarize this... this survey was presented to me, and trying to be really honest, I was thinking about a little home office. I have a life estate on my property and I am responsible for the property taxes. I checked the box for residential. I have a long-term rental and commercial, thinking of my little office space, but not realizing— I thought it was more of an inquiry, not an assessment. When I went to see my accountant in 2013, she said she looked at property tax and said, "Why is your property valued at commercial rate?" I said, "That is news to me." I went into the Real Property Tax office and explained that was an error in understanding this form, which was not explained to me that commercial, as we have been explained to later, constitutes twenty-five percent (25%) of your home use signage and designated parking, none of which applied to me. I have never even had a customer come to my home. None of this was told to me. Anyway, they refused to change it. They said that the time for the appeal had passed and I was there for zoned commercial. I was so upset, I went back again to try and reason with them over this clerical error and it was too bad. I was zoned commercial. I will not go into the details of how I was treated, but I was really disheartened and dismayed. I immediately filled out a form to change it back to residential for the upcoming year. I called numerous times during the year to make sure that it would be changed back. When you call to check, the pat answer is, "Well, we cannot change anything until the rates are set. We will know when the rates are set." So you wonder, "Are these papers in a file? Can they not have a line in their computer system where they update in real time, so they can tell you something has been edited?" So you can believe that I now look at every line on that little card that they mail out with that the bottom thing. Who would have ever thought that it would have been changed to commercial? At any rate, it still was not changed to commercial. I filed an appeal. Through all of the preparation, when I went to the appeal, it was obvious that my home is not a commercial on any level. It was instantly changed and the appeal letter came to me and the Real Property Tax office, which still did not change it back despite several phone calls and me taking in a copy of the letter, which they said they already had...

Mr. Sato: Three (3) minutes.

Chair Furfaro: Continue.

Ms. Gayle: Okay. At any rate, the bills came out commercial. I went in and it got changed. They signed it the night before. It was just a hot mess and a real cluster. My concern is now— and the reason I wrote the letter— I ate it on the extra one thousand seven hundred dollars ($1,700) last year. Then when my property taxes were changed back from commercial, I thought I would get relief, but it was still one thousand seven hundred dollars ($1,700) more. I said, "Why is that?" They said, "The cap was removed. My value was reassessed at a higher rate and the rates went up." We are still paying the same amount that we were paying at commercial rate, only if I paid at commercial rate, it would have been more. The bottom line is that I was paying almost double, at least a third more than I had been used to paying for the twenty-seven (27) years I have lived in the home. Where are we now? I am hoping for some relief, not only short-term, but long-term. I do like the proposal made by Mr. Hunt, although I still feel like I am going to be an outlier because if they revert back to it the 2013 property taxes for this seventy percent (70%) discount over five hundred dollars ($500) using last year's assessment, I am zoned at commercial, which I am not even commercial, so you are getting a false positive on me. It looks like I do not have an increase, but I have actually almost doubled because I was never even really commercial. The other part besides the financial burden of this is how it was handled and the process over an obvious, simple error. It was just this hardline appeal state. My solution suggestions for the future and for people who might get caught— I am probably not the only one in a situation such as this, is when you use a survey, a survey does not mean a reclassification. Let people be clear about what that is, have the working distinct, and tell people what it is. If your classification or zoning changes, put in big red letters on the thing, "Your zoning has changed." There is such a short window of time where until those cards come out and your appeal rates time is not an accurate amount of time for people to deal with it, so do something in big red letters— not long letters that people are not going to read, but lets people know that you have a window of time to deal with what is happening or what has happened to you. The other thing is maybe customer service training for the office, as well as— I think I can qualify for homestead, but I have been given two different answers about what qualifies for homestead from the Real Property Tax office. Training needs to be implemented, so everybody is up to speed, and I realize that it is complicated and changing. Also, empower the staff there to change simple clerical— use some good sense and... I think to use common sense and good judgment and empowering staff to fix things like this and also...

Mr. Sato: Six (6) minutes.

Ms. Gayle: Also, change things in real time, not like "we will change it after the rates come out next year, and then you might know whether it is in the stack that got changed or not." I would want some kind of special consideration if the rates roll back for that seventy percent (70%) discount because I was not commercial in the first place, even though it was zoned such, so I would need some kind of remedy for that. Thank you for listening and I hope for the best for all of us.

Chair Furfaro: I am going to tell you something now, and I do not want to have a lot of dialogue from the Councilmembers. First of all, the Council cannot direct service delivery to the Mayor's staff, but if you come and see me, I will write concerns to them. On the classification of your building, did you feel necessary to talk to the building appeals department?

Ms. Gayle: I do not even know what that is about.

Chair Furfaro: Okay. I will be glad to see you on that one, as well as a tax appeal. Did you actually file one?

Ms. Gayle: For property taxes?

Chair Furfaro: Yes.

Ms. Gayle: Yes, for the following year.

Chair Furfaro: Good, I just wanted to know. But you did not do one on the buildings, so that they could assess your home.

Ms. Gayle: No.

Chair Furfaro: Okay.

Ms. Gayle: I just wanted to appeal... the only thing I was concerned about is the property tax for commercial.

Chair Furfaro: I understand, but if you have them look at your building as well that it is not commercial, that is a good document to have from the building appeals.

Ms. Gayle: I do not want to go through all of that for a simple box.

Chair Furfaro: Okay. It is your choice. I am just saying that I am willing to help.

Ms. Gayle: Okay. Thank you.

Chair Furfaro: Any other questions?

Mr. Bynum: Thank you for your testimony. You are illustrating actually two issues: one is folks who got in the wrong class by mistake for whatever reason. There are lots of reasons. I am one of them. The other is the reset of the cap. I just want to know because you said if I go back to this, I also lost the cap. I just wanted to know if you heard Councilmember Hooser say our intention is to introduce a Bill that would allow people to get the proper exemptions retroactively. Did you hear that?

Ms. Gayle: Yes, but I am getting lost in the computation. This is getting so complex. I am a paralegal, so I consider myself somewhat of an intelligent person. Removing the cap really hurt me, but I do not know what the long-term ramifications and proper answers are. I just know this big discrepancy, short-term or long-term, does not help.

Mr. Bynum: I just wanted to hear what Councilmember Hooser said, that both stop-loss on the cap and being able to get in (inaudible) is something that we intend to address. I just wanted to make sure you heard that.

Ms. Gayle: I just do not want to be left out again because of that silly classification.

Chair Furfaro: This might be a conversation that you can have directly with Mr. Bynum. JoAnn.

Ms. Yukimura: Frieda, thank you so much for coming up to testify. I feel very badly about what you had to go through. Your experience does highlight a lot of the things that I think the Real Property Tax Division has to address, so I want to encourage you to talk to Steve, who is the head.

Ms. Gayle: I will.

Ms. Yukimura: Are you not a consultant?

Ms. Gayle: Yes.

Ms. Yukimura: Steve, you should hire her for customer service. I hope that things will get straightened out and I want to know the results of it. If Steve does not let me know, will you please let me know?

Ms. Gayle: Yes. Thank you.

Chair Furfaro: You have a lot of us reaching out to you on a personal basis. You can talk to me, Mr. Bynum, Mr. Hooser, or JoAnn. Thank you for your testimony.

Ms. Gayle: I appreciate that because I will be honest; my faith in our local government— I have been very active in a lot of nonprofit organizations here and my faith in the local government was seriously damaged; not just the amount of time, energy, and not to mention the money that I had to spend. I do not want to feel that way and I was also concerned that I would be, again, an outlier if they changed it to last year because it still would not apply to me, but bigger than that, my long-term going on future here as I age, see incomes, and everything. To be able to afford living here, being a part of this citizenry, and caring about our Kauaʻi and our *aloha*— I just wanted to step up.

Chair Furfaro: Thank you for coming, Frieda. Thank you very much.

Mr. Sato: The next speaker is Toni Martin, followed by Linda Garrett.

TONI MARTIN: Thank you, Council. My name is Toni Martin. I have a similar problem to Mr. LaCour when the cap did affect us, where we had an increase. When I checked the box that we had a four hundred sixty (460) square foot vacation rental on our property, I had no idea what was going to happen. The way I found out was not by my tax bill, but I got this wonderful letter from my mortgage company saying that my house payment had gone up dramatically, and that was my first notice because they collect my taxes and I do not see a tax bill. I am very familiar with the ways and means to appeal property taxes. I have appealed on numerous times regarding our property tax, and I have been rewarded with my research in what I have done in order to have changes made. When this happened, I went in to, once again, the Real Property Tax Department and asked if there was an appeal or if there was any other way I could go about this. I was very bluntly told "no" and to "go pound sand," basically. It was not even done politely. It was, "I am sorry. This is it. You do not have a choice." I have talked to several people that are in the same position that I am or that have a reference, and the only thing that we have been told was that we could CPR the property. Well, my husband and I are both retired and on limited income; we are on social security. We never intended to rent that additional unit when we bought our home. We have been there for fifteen (15) years. When property taxes started going up, we started renting it and did an official TVR. We have gone and we have submitted everything that they have asked for. We have paid our fees. We do pay— I know that you are not for some of the TVRs, but we are contributing tax-wise as far as the TAT because we pay our TAT and the General Excise Tax (GET) on that, and now we are penalized for having it. This small rental unit is not going to compensate for the increase that we are now zoned as "resort," our whole property. We have lost our homestead. We are no longer resort, yet we have lived there and it is our permanent residence. It has always been our permanent residence. I have no way of making up the income. If we go ahead and try to come up with the money...

Chair Furfaro: That is three (3) minutes. Keep going.

Ms. Martin: I only have a couple more sentences. If we try and go ahead and do a CPR on this property, which is very costly, I do not know that this Council will not change, once again, the rules. The Council has changed the rules on low-income. At one point, it was net income, and then it was changed to your gross income. The rules keep changing and I do not know whether we should come up with the money in order to do a CPR, which is going to be very difficult for us, to have you change the rules again. I think the indecision that you have left us with and the consequences of not knowing what your taxes are going to be and where they are going to go has been a huge imposition on all of us people who are retired, specifically, and ones that are on very limited income or specified income. I thank you for your time.

Chair Furfaro: I do want to share with you that if you leave your information, I would be glad to talk to you about the one change in the reporting of net versus the gross. It was a very delicate item, but people were writing off large tax investments, and then finding themselves dropping tax categories. It was very challenging, but it was very awkward for us as well.

Ms. Martin: Okay

Chair Furfaro: Mr. Hooser.

Mr. Hooser: Thank you for your testimony. The theme has been repeated and I have gotten many calls from people. This is a particular issue of the use. Small use, four hundred (400) square foot: the classification being applied to the entire property. I will be proposing a measure that is intended to make it allocated by the percentage of the value, not the entire value. It has got some process to go through, and the Council would have to pass it, but I agree with you that that is a large inequity, and we will try to fix that.

Ms. Martin: I think that they should be able to do that. In the beginning, for our property, part of it is conservation and part of it is an R-2 property. In the beginning, our property was taxed completely as conservation, and at that time as you say the tax rates had not changed and conservation was high, we went in and appealed finally after I really realized what was going on and they split our properties into two (2) tax bills: one as conservation and the other is R-2. Our home and our small vacation rental are on the R-2 portion. If they are able to do two (2) tax bills and two (2) assessments at that time, I do not understand why they cannot do it at this time. The system was run that way before, and upon appeal, they did that for me. It seems like this should not be that difficult to make that change.

Chair Furfaro: I want to get some clarity. You said in the beginning that your entire property was conservation.

Ms. Martin: It was taxed at conservation.

Chair Furfaro: Was it zoned conservation?

Ms. Martin: No, it was zoned partially conservation and partially R-2, but it was taxed one hundred percent (100%).

Chair Furfaro: I am clear now. Thank you. JoAnn.

Ms. Yukimura: Thank you for being here. Where is your property?

Ms. Martin: Hā'ena, not beachfront. We have a small one thousand five (1,500) square foot house.

Ms. Yukimura: Okay. Thank you.

Chair Furfaro: Thank you very much for your testimony. Next speaker.

Mr. Sato: The next speaker is Linda Garrett, followed by Sue and Kim McLaughlin.

Chair Furfaro: Linda Garrett? She is not present.

Mr. Sato: Next up are Sue and Kim McLaughlin, followed by Joe Rosa.

KIMBERLY MCLAUGHLIN: *Aloha*, esteemed County Councilmembers. First of all, thank you for all that you do for all of us on Kaua'i. I am Kimberly McLaughlin. This is my mother Sue McLaughlin. We wrote a letter to you a few days ago. We have copies if you need it.

Chair Furfaro: You can give it to Yvette and she will distribute it.

Ms. Yukimura: We have it.

Chair Furfaro: I think some of us have it either here or down in our office.

Ms. K. McLaughlin: Thank you. We have owned a family home in Hanalei. We are one of those people in Hanalei that own a beautiful family home. We have owned it for twenty-eight (28) years and we have a five hundred (500) square foot vacation rental on it. There are two (2) homes on it: one (1) main house where we live and one (1) five hundred (500) square foot vacation rental, two (2) bedroom that we have rented out for a long time.

SUE MCLAUGHLIN: Since 1986.

Ms. K. McLaughlin: This is my mother's income, which is from the vacation rental. She is seventy-four (74) years old and retired. She volunteers at Hanalei School. We firmly believe in paying our property taxes, and we are in the highest bracket. We are in Hanalei and we believe we should be in the highest bracket; however, we see the benefits of property taxes in fixing roads and in education. My husband and I are educators ourselves. I am an elementary school teacher. We like to share personally how this has affected us and that we are here for the second year in a row. From 2011 to 2012, our property taxes have increased fifty-eight percent (58%). From 2012 to 2013, it increased seventy percent (70%). That is why we were here last year. We are here again. This last year, it has increased thirty-seven percent (37%), a total in the last three (3) years of three hundred sixty-eight percent (368%). When we looked into it, we used to pay as residential four dollars and forty cents ($4.40) per one thousand dollars ($1,000) of assessed value. Now we are paying eight dollars and eighty cents ($8.80), so it has doubled in value, but the percentage has quadrupled in the last three (3) years.

Mr. Sato: Three (3) minutes.

Ms. K. McLaughlin: We budget what we are going to be paying for the rest of her life. Of course, standard of living has increased an average of two percent (2%), so we budget that into the future years, but we do not budget in a three hundred sixty-eight percent (368%) property value increase. Let us tell you how this is affecting our family. Go ahead, mom.

Ms. S. McLaughlin: I have rented out that vacation rental, two (2) bedrooms, one (1) bath, since 1986. The most I have ever gotten out of it was gross thirty thousand dollars ($30,000), which I pay TAT and Excise. So that today would not even pay one-third of what the taxes are.

Ms. K. McLaughlin: Yes, we are paying TAT and Excise, and then we are paying property tax as well. We are probably going to be possibly shutting down our vacation rental because it does not make any money anymore for us. It goes to property taxes. The same amount will go to you, but I think you lose out in the fact that there will not be tourists coming to our property anymore, and Hanalei is a big attraction to them. We just thank you for hearing us out. We think it is unfair for constituents to raise taxes beyond the capacity to pay with very little warning. We were pretty shocked last year, as you can imagine, and then again this year. We appreciate you presenting this workshop. It is very informative. It still looks like we probably need to shut down our rental and go back to the category of residential.

Ms. S. McLaughlin: Or possibly sell the property, which the new guy would have to pay the higher taxes.

Ms. K. McLaughlin: Or today, we could possibly for a homestead exemption.

Chair Furfaro: You could possibly qualify for homestead. You could also look into the long-term residential or leasing of the two (2) bedroom house, which would change your tax category.

Ms. K. McLaughlin: Long-term residential?

Chair Furfaro: Yes.

Ms. K. McLaughlin: What was the second part that you said after that?

Chair Furfaro: The homestead for owner-occupied. The particulars are explained in the various applications. I do not know your place in particular. Are you on Weke Road?

Ms. K. McLaughlin: Yes.

Chair Furfaro: You should take a look at that. We are trying to move along here, but I will recognize Councilmember Yukimura, and then Mr. Bynum. Please take a look at that as well.

Ms. K. McLaughlin: Yes.

Ms. Yukimura: Thank you, both of you. I have known your mom, Kim, for a long, long time and I talked to her during the break. There is this home preservation. You are right that you would probably give up the vacation rental idea, but do a long-term affordable or a long-term lease...

Ms. K. McLaughlin: Fifteen (15) years?

Ms. Yukimura: Yes. You would probably feel most comfortable to a family member. The home preservation, which is the one Mr. Haraguchi used would be five hundred dollars ($500) or three percent (3%) of one hundred thousand dollars ($100,000) income, whichever is greater. I know your mom said you have to check on the income thing, but those may be some options and they sure would be worthwhile looking at if they can allow you to hold on to your place and live there.

Ms. K. McLaughlin: Thank you.

Chair Furfaro: Did you have anything, Tim?

Mr. Bynum: I want to make sure that everybody has time to testify, but give me a call. I said earlier that I have a spreadsheet. I can really map out anybody's options. I have done that for hundreds, so give me a call. I want to make sure that everybody has time to testify.

Ms. K. McLaughlin: Thank you.

Mr. Bynum: There are options, and they may not be great ones, but...

Ms. K. McLaughlin: It is great to hear that there are options.

Chair Furfaro: Mr. Kagawa has a question for you.

Mr. Kagawa: So in 2009 and 2010, things were okay as far as taxes?

Ms. K. McLaughlin: Yes.

Mr. Kagawa: So the vacation rental could operate and the taxes were manageable where you were at least comfortable?

Ms. K. McLaughlin: Yes.

Mr. Kagawa: So from 2011, there was just a downhill slide, I guess.

Ms. K. McLaughlin: Big time.

Mr. Kagawa: Do you think it is fair that government is taxing you so much that it is forcing you to move in certain directions? As a homeowner or as an individual, you want to do basically what you want to do. You put a lot of effort into acquiring your home and putting in that vacation rental.

Ms. K. McLaughlin: Yes.

Mr. Kagawa: Do you think it is really unfair that these taxes are now telling you what you have to do?

Ms. K. McLaughlin: Yes. We think it is very unfair between properties. We feel unfair for our whole property— and our vacation rental is twenty percent (20%) of our property, so we feel unfair for our residential property to be taxed in vacation rental status. Actually, when I looked into it, we are paying more than commercial rates. I feel that we feel that is unfair.

Mr. Kagawa: Thank you. I agree.

Chair Furfaro: Just a quick glimpse on that. If you fall into a two (2) bedroom, one (1) bath category, and category of one thousand six hundred ninety-five dollars ($1,695) a month tax or generating twenty-one thousand dollars ($21,000) a year, you could probably qualify for these exemptions long-term. I just wanted to give you an idea before you left.

Ms. K. McLaughlin: Okay. Thank you.

Chair Furfaro: Next speaker.

Mr. Sato: The next speaker is Joe Rosa, followed by Steve Lindsey.

JOE ROSA: Good afternoon, members of the Council. For the record, Joe Rosa. I am basically here to see what I can present this thing to something with the taxes. The thing I see and the problem is, is that we do not have land classification or zoning for resort area, commercial, and residential. It seems that tax rates are based on one rate, which is organization. There is no room, and yet the people in certain areas have all the conveniences of government services, shopping centers, airports, harbors, you name it. If you go up Wailua Homesteads, there is just one (1) convenience store, and yet they pay the same amount of taxes in people in Molokoa or in Līhu'e. I myself, bought property in Isenberg tract in the early 60s, and when I came back from the service, the Hanamā'ulu, Laukona area, were selling houses over there; package deals for mostly plantation people that were costing them up the high of fifteen thousand dollars ($15,000) for house and lot. When I bought my place, it was not anything what they were paying there. Just because one (1) house sold in that Laukona area for a certain price, we got penalized. You could set it in your taxes. It comes up right away. Later on, it went up again. That is why I made two (2) appeals when the thing happened. Why do we have to be penalized for a house that was sold in Molokoa or Ulukukui or Pua Loke. If the people were willing to pay those high prices, which were ridiculous, and like they say was "fair market value," then let those people pay those taxes. Do not penalize the other people that bought those houses at the price they bought their homes. If those people can pay the higher prices while it is worth it, then you tax it on that rate. The average person over here cannot afford it. That is why they stay within their limits. You take Molokoa, it should be a little higher basically because it is surround by businesses. Look right around you. There is Walmart, the Tip Top area, Rice Street, and the industrial tract area.

Mr. Sato: Three (3) minutes.

Mr. Rosa: Molokoa is surrounded by industry or business.

Chair Furfaro: Joe, that is your first three (3) minutes.

Mr. Rosa: Yes, Sir. Thank you. Those are the kind of things like I say, tax rates should be appropriate for area or residential use at the most. Think about it— the people in Molokoa are going to be choking when the business encounter them right around because all they need is the airport road area and the small lot that they have from Walmart to the Kapule Highway. They are only going to be ending up paying more taxes because they are in an area that from the old time that I can remember, the land below Kūhiō Highway to the ocean was supposed to always be zoned as light industry or business because of the airport and the harbor facility that they had. Anything above Kūhiō going *mauka* would have been residential. These subtle changes— I have seen it all in my lifetime living here on Kaua'i all of these years. This part zoning that is going on here and there has contributed to a lot of these inflationary taxes that people have to pay because of one thing that comes up. I will leave that with the Real Property Tax Department to look into it. We also need land classification. You have the resort area, residential, business/commercial, et cetera. I think the taxes should be based on the use of the land. I do not own a beachfront property. If you want a beachfront property, you pay the tax. That is what people like; they like the beachfront. Beachfront properties are scarce and you always hear the real estate people saying that land is scarce on Kaua'i, which I doubt, because when you look in the papers, there are a lot of ads. The only thing is that I look at the prices and they are beyond the reach of the average person. That is why the real estate is high. It is scarce on the beach land, but not on the other residential lands. To me, do not penalize the average taxpayer an amount that someone is willing to pay, which would be like a speculator would come in and buy it, and then they bought it at that price and they pay the tax, but do not penalize the average person because somebody is willing to pay a high price. Thank you.

Mr. Sato: Six (6) minutes.

Chair Furfaro: Thank you, Joe.

Mr. Sato: The next speaker is Steve Lindsey, followed by Andy Haas.

Chair Furfaro: Just a follow-up on Joe's comment. We do have eight (8) zoned categories in the area. Part of our problem is that we have areas that are not intended for resort use, but we have challenges with the visitor destination areas as such, which is a separate agenda item, and we also should make note that during my time on the Council, tax rates have changed four times, contrary to what you might have heard. The floor is yours, Sir. I just wanted to clarify some points.

STEVE LINDSEY: *Aloha.* My name is Steve Lindsey and I have been a Kaua'i resident for twenty-seven (27) years. I built my house with partners in 1979 for eighty-five thousand dollars ($85,000). That was land and house together. Our mortgage was eight hundred fifty dollars ($850) a month and this included the property taxes. So through two (2) hurricanes, my property taxes did not go down. I paid the same mortgage all the way through; nothing changed. In 2013, my property taxes were two thousand four hundred forty-one dollars ($2,441). In 2014, they jumped to five thousand one hundred forty-seven dollars ($5,147)— excuse me— that was increase. I am sorry. They went from two thousand four hundred eighty-two dollars ($2,482) to seven thousand five hundred eighty-nine dollars ($7,589), which is a two hundred eleven percent (211%) increase. The actual increase from 2012 to 2013 was a three hundred twelve percent (312%) increase. Now, I was a bus boy at the Princeville Hotel and you might recognize me because I took your ashtrays and carried your dirty dishes for seventeen (17) years. My wife was a substitute teacher and she usually went down to Kapa'a High School and was put into the class with all of the juvenile delinquents and people that would turn on the television of "Rambo" to educate those kids for the hour that she would be in charge of that class. My daughter went to Aloha School Early Learning preschool, Hanalei Middle School, Kapa'a High School, and graduated from the University of Hawai'i and now lives in Honolulu and works for The Gas Company. When I moved to Hanalei, there was no shopping center. The Ching Young stores provided us with some essentials. We drove to Kapa'a for groceries, gas, and hardware items. My house was one of the first five (5) homes in Hanalei Palms. I choose Hanalei for the seclusion. It took to the present for all the lots, minus one, to be developed into housing. Most of my neighbors who live in the Palms are retired and came to Hanalei for similar reasons. Most Kaua'i people could not figure out why we would live in a swamp where it rained all of the time. Now we are being punished for living in Hanalei. What happened to us will however happen to all of you, just like people that live in London now. A one (1) bedroom flat starts at one million dollars ($1,000,000).

Chair Furfaro: That is your first three (3) minutes. You may continue.

Mr. Lindsey: We actually hate to see people that move into Hanalei Palms because we know that they are only going to be there for a short time, turn over their property, and move out. We know that our property taxes are going to go up based on that. I am supporting Carl and Walter Lewis in their proposals that we "cap" or "circuit break" our increases in property taxes. We realize that the government needs money to run, but the way that they should do it is by setting a factor that is tied to the budget on any given year. A house is not an asset unless you sell it. I think we all know that, that houses cost more the longer we own them. One last thing is that I have always rented out my 'ohana unit to either a HUD or low-income, and I was never made aware of the possibility to reap the benefit of taking advantage of that. I go into the Real Property Tax office every year. I used to take in my Hawai'i State Tax form and my Federal Tax form and ask them if there were any new laws. I was never given any counsel at all. We just do what we are told. It took me ten (10) days to find out the time and place of this meeting. This is the first time I have addressed the Council. I have called Mr. Hooser and The Garden Island. I finally was walked through the County's website. I had to go through three (3) menus to find the time and place of this meeting. I noticed that The Garden Island just published the time and place of the meeting in yesterday's paper. I do not think a lot of people here would have even known. As far as being notified and understanding is a very complicated process. I feel that we are left out in the cold. Thank you.

Chair Furfaro: JoAnn and Mr. Kagawa.

Ms. Yukimura: Thank you so much, Mr. Lindsey. I am sorry that you have gone through so much trouble. We really do have to improve our website access. Knowing now about that long-term rental, do you know whether you would be qualified for this Long-Term Affordable Rental that would cut your rate in half?

Mr. Lindsey: Actually, my partner is going to move here and I am going to have to evict a low-income... not a low-income, but the person who is living there to take advantage of just the homeowners. Right now, I do not believe in your one (1) year lease. I own some property very, low-income rental property, on the mainland, and I have never given anybody a lease because when I get a bad renter, then I have to go to court and try to get money out of somebody that could not pay their rent in the first place.

Ms. Yukimura: Well, if your partner is coming, are you still planning to hold on to that piece? But your partner is now going to live in it?

Mr. Lindsey: Yes. It will be totally owner-occupied. I will be homeowners and not homestead.

Ms. Yukimura: If you are living in one (1) unit and your 'ohana unit is either on a one (1) year affordable rental...

Mr. Lindsey: No, my partner will be living in it. Before it was... well, actually it is on hundred dollars ($100). I did not even realize what the limits were.

Ms. Yukimura: What I am saying is that depending on your agreement with your partner, you could either qualify for the long-term rental agreement or if you feel confident giving a fifteen (15) year lease with some outs— it does not mean that you do not have any provisions for it falling apart, but you could drop your rate in half.

Mr. Lindsey: In other words, I could write a one dollar ($1) per year lease with my partner who already owns the house and drop my taxes in half?

Ms. Yukimura: Oh I see. If it is already also an owner, then you already are going to have the owner-occupant. You will definitely have the owner-occupant status with exemptions in each one and the lowest tax rate.

Mr. Lindsey: Which will be six dollars ($6), right?

Ms. Yukimura: Three dollars ($3) per thousand. Please check with Mr. Hunt.

Mr. Lindsey: Yes. I would like to know how to sign up to get a lesson, if you will.

Ms. Yukimura: If you are both owners and you are both living in it as owner-occupants, you both qualify for the exemptions. Steve is nodding his head. You both quality for the three dollars ($3) per thousand tax rate.

Mr. Lindsey: Will that be retroactive?

Ms. Yukimura: No, but we have some interim relief that is available for this year, so that you can get into those classifications, which should give you long-term relief.

Mr. Lindsey: Do I have to hire a lawyer?

Ms. Yukimura: No.

Chair Furfaro: Can I say at this point that if you are going to continue the dialogue with Councilmember Yukimura about these options for you, I am sure she would be glad to talk to you offline.

Mr. Lindsey: That is fine.

Ms. Yukimura: I am.

Chair Furfaro: I am available to talk to you offline too if you would like. Mr. Hooser has a question for you.

Mr. Hooser: It is not really a question, but I wanted to let you know that we are working on some retroactive relief and hopefully that will come through. In addition to you moving forward, qualifying for these exemptions, hopefully there will be some retroactive relief. I am confident that there will be.

Mr. Lindsey: Thank you.

Chair Furfaro: I just want to share with you that I will follow-up with this. The announcement was made on August 6th by the Council. We also had a posting on August 21st. I am trying to answer your question.

Mr. Lindsey: I am sorry. I did not know you were addressing them to me.

Chair Furfaro: This is the question and answer portion, but I wanted to tell you that the lack of notice bothered me, but I just checked with our records and we did have something on August 6th and August 21st, but obviously, we need to improve it and I am glad you brought it to our attention.

Mr. Lindsey: The date was published, but not the time or location.

Chair Furfaro: I am indicating on the 6th that the location was announced here. On the 21st, it showed a time from 9:00 a.m. – 1:00 p.m., but I will check into it.

Mr. Lindsey: When I called the Council and talked to the different operators, they had to go and ask somebody else and nobody had the answer for them.

Chair Furfaro: Very good feedback. We will follow-up.

Mr. Sato: The next speaker is Andy Haas, followed by Rowena Pangan.

Chair Furfaro: Andy is not here.

Mr. Sato: The next speaker is Rowena Pangan, followed by Carole Wells.

ROWENA PANGAN: *Aloha*, Council. My name is Rowena Contrades-Pangan for the minutes. The reason I am here is because I am a Native Hawaiian and I am a proud Native Hawaiian, who inherited my great-grandmother's land that is located on Kawaihau Road, directly across the St. Catherine's School. My great-grandmother, who was a pure Native Hawaiian, was very proud to have property once upon a time, and owned forty (40) acres where we reside now, which we only have half an acre left. The reason for that is because she sold property so that she could, in those days, pay her property taxes. My grandfather, who was Jacob Kaumana Morrisburg, granted me this property in beloved to my great-grandmother, Annie Keawe. Annie Keawe was a proud Hawaiian who believed that the people of Hawai'i should take care of their family and their *'ohana*. My children and grandchildren, whom we all live on the property; there is eleven (11) of us living in the home. It is a five (5) bedroom, three (3) bath, which we just finished building because I had a piece of property, and I still have it, in the Kawaihau Estates area. This property was given to me from my great-grandmother, who made sure that I would take care of our family, and that is also known as the *'ohana* home that if anybody came from outer-island, that they could come and stay with us without any questions asked. My grandchildren are the sixth generation to live on the property. Do you think that there will the seventh generation with the way property taxes are going? I am not sure about that. Will I be able to live there and have my great-grandchildren live there? If the prices of the property keeps going up, my grandmother's dream of having an *'ohana* home and *'ohana* property will die. Yes, she will never be able to see it, but it is my responsibility as a Native Hawaiian to make sure that this will continue to continue with our family. It will be a bitter shame to see that the next generation, which would be my great-grandchildren, never to live on the property. Why? Because we cannot afford the property taxes. That is a shame. I am a Native Hawaiian, like I said, and I am proud to be it. My grandmother was a very, very humble Hawaiian, and she is probably turning in her grave to see how much I have to work so that I can provide a home for my family. Thank you for your time.

Chair Furfaro: Thank you very much. Before we go any further, JoAnn, I want to share with members that we have nine (9) speakers left. We only have a captioner until 2:00 p.m., so I want to make sure we are focused on questions rather than individual discussions about personal property.

Ms. Pangan: I also have another comment. I called in sick today because I needed to be here. Where are the Hawaiians in here? There are no other Hawaiians. The saddest thing is because we have to work. If we do not come out and partake in this— and a lot of my friends are Native Hawaiians. They told me, "Ro, I cannot come. I have to work." I work three (3) jobs, so that I can provide for my children and my *'ohana*. Thank you.

Chair Furfaro: JoAnn, had a question for you. As you know, I am very familiar with the Morrisburg 'Ohana. JoAnn, you have the floor.

Ms. Yukimura: Thank you very much. I just want to understand your situation. You have one (1) home on Kawaihau Road, and then another *'ohana* home. You live in the Kawaihau Road...

Ms. Pangan: I finally built my five (5) bedroom.

Ms. Yukimura: Congratulations.

Ms. Pangan: There were just way too many of us. My children all moved out and they had to move back in because rent is just outrageous.

Ms. Yukimura: Yes, so eleven (11) of you living in a five (5) bedroom home?

Ms. Pangan: Yes.

Ms. Yukimura: But your *'ohana* home does not have anybody living in it, but you use it as family home?

Ms. Pangan: No, that is my home. I call my home my *'ohana* home. When my family comes from near or far, from Moloka'i, they will come. If we have to throw the *hāli'i* on the floor, that is what we do. That is what you call *'ohana*.

Ms. Yukimura: So you are just talking about one (1) home?

Ms. Pangan: Yes. I am just saying, will my grandchildren be able to continue to pay for the taxes? My husband and I sat down last night and said, "Can you imagine the millions of dollars that our *'ohana* has paid on County taxes?" I am now the fourth generation to live there. How many years? My great-grandmother owned the property one hundred twenty (120) years ago.

Ms. Yukimura: How much are your taxes this year?

Ms. Pangan: I do not feel like I have to disclose my amount, but it has gone up. It will continue to go up. We just go school-zoned across St. Catherine's. My grandchildren will be attending St. Catherine's, and they do attend.

Ms. Yukimura: That is wonderful that they can walk to school now.

Ms. Pangan: Thank you.

Chair Furfaro: We are going to take a break right now. I am going to be at this table at the ten (10) minute mark and I will start testimony again when we come back because we only have a captioner until 2:00 p.m.

There being no objections, the meeting recessed at 1:21 p.m.

The meeting reconvened at 1:30 p.m., and proceeded as follows:

Chair Furfaro: We are back from our break. May we continue with speakers, please?

Mr. Sato: The next registered speaker is Carole Wells, followed by Mike Dyer.

Chair Furfaro: Members, I want to remind you that we will lose a captioner at 2:00 p.m., so let us take testimony from the many people in the audience. Go right ahead.

CAROLE WELLS: I am Carole Wells. Thank you for listening to me. I am here because my rates of my taxes have gone sky-high. My husband and I moved to our property... we bought it in 1987. We built a barn and a house. Over the years, we farmed. We had a farm agreement. We got dedicated for ten (10) years and they gave us another twenty (20) years. In the meantime, our taxes, even if we get our dedication for agriculture, our taxes have increased so much. Over this last year, we lost our cap and the income. Since last year to this year, somebody sold the piece of properties, so the value on our land increased four hundred sixty-seven thousand five hundred dollars ($467,500). That is almost half million dollars ($500,000) in one (1) year. Between last year and this year, we lost our cap, we lost our low-income, and our land has increased a half million dollars ($500,000). It is a shock. Luckily, I went in and they told me— well, we have entered barn over the years because we are a farm. We had farm help that was allowed to stay in the barn and did not exchange money. They did stuff around. When we raised horses, we needed people on property 24/7, especially since were a breeding farm and we had sick horses and we needed somebody there. In 2000 is when the dedication came in and said that you needed to dedicate your land if you want to farm. Fine. We are farmers. We are going to do it. My husband and I looked at each other and said, "What? Raise horses? We are getting pretty old." For another ten (10) years, our bodies could not handle it, so we dedicated our land into forestry. We planted trees and we are happy they are growing and we are there. This time, my husband retired from a real job. We had a cap. We knew how much money we had. We decided, "Okay, we can do this. This is where we want to be for the rest of our lives. We raised our kids there." My son is still on the island. My daughter went off to college. In the meantime, our own preservation of homestead. We were told through our lawyer that if we did a living estate on the property, which means that we could live in our home until the day we die. If my husband died, then I could live in it and my children would take that property when we die. We did that for reasons. We wanted to make sure that we were there and we are going to live there for the rest of our lives. Anyways, our property— if we did not take the long-term rental for low-income, our taxes went up three hundred eighteen percent (318%) in one (1) year. By leasing the property, it would increase our property sixty-five percent (65%); our income. That is a big jump. That was not figured into our lifestyle, I guess you would call it. I said, "Do not worry. We can go for preservation or homestead class." I go in to file my form. Anyways, we do not qualify. The number one reason is by doing the living estate on our property, my son and daughter are on title as owners of the property. Now, instead of my husband and I, my income, we have to show all four (4) of us. Even if my children have no rights to the property, no income, cannot mortgage, cannot sell it, and cannot do anything with it. My husband and I have all the rights and pay all the bills. We pay the taxes. We were told that we would get the taxes for us living there and our benefits. Obviously, we are not going to because all four (4) of us are now on title. I think that is wrong. I think something has to be done. They say sell the property— you cannot sell the property. I have no right to. In our agreements in this, we are stuck in that step. It is a big problem. Our income could do it if it was just my husband and myself. The other problem is that we have a renter in the barn, which is this one (1) room because we needed the homestead to lower it down to sixty-five percent (65%). Luckily, her lease is coming up for next year. We wanted to know if there is any way we could get preservation of homestead because we can ask her to move out. We will take out the kitchen and bring it back to nothing.

Chair Furfaro: I am going to have to stop you. I gave you some leverage. We do not have Steve here, but I think there are people in this office that you can ask those particular questions of. Members, we have twenty-four (24) minutes to take testimony today. We want to hear the issues and direct them to our September 10, 2014 Council Meeting. Next speaker, please.

Mr. Sato: The next speaker is Mike Dyer, followed by Sara Sloan.

MIKE DYER: For the record, my name is Mike Dyer. We have been doing this for a long time. It seems like our system is involving into sort of "catch as catch can" and into kind of a really byzantine thing right now. It has been very interesting for me in listening to the stories in how property taxes are really affecting people's lives. Somebody said that we have this thing about property taxes and inability to pay, but I think Chair Furfaro said it too, that we are also talking about the ability to pay and we are getting to the point where we are really stretching a lot of people in their ability to pay. I agree with those who said that a lot of our problems have to do with the *ad valorem* taxation. My good friend Steve Hunt and I argued at great length over this in the task force days because of course, Steve is a lifetime appraiser, so market value is the big thing for him, but I think market value is one of the big things that drive our problems here. One of the things that I would like to suggest, and it is probably way too late, but you guys might go back into the dusty, old files and dust off the task force recommendations. We had long, long debates over how to get around the problems with using market value. We chose a way of setting a value, and then going forward with each property on a Consumer Price Index (CPI) based process instead of market value. It should seem obvious what a super problem is, as Mr. Rosa said, to have a house sell in your neighborhood that does not have anything to do with you and all of a sudden, it changes your whole life and you suddenly cannot pay your taxes anymore. I think we really need to look at that fundamental part of what we are doing. I also stated some concerns about other things that do not relate to all of these residents who have come in today; all this perforation of new classifications as a concern to me. That is something else that we should really talk about. The appeal process has gotten a lot harden since we moved to combining land and buildings together. It is really hard for the taxpayer to know where you ae because you do not know where the dollars are coming from; where the valuations are coming from. The appeal process was really hard to prevail in in the old days and it is much worse now. The appeal board has a ninety-five percent (95%) acceptance of whatever the assessor said and the public is almost defenseless in face of the complexity of the system and the way it is setup. As far as the cap goes, obviously through the task force, we were in favor of removing the cap, but not removing the cap and leaving market value assessment in place. That was a big problem. The cap has gone off. We are not a really rapidly increasing market, but it could happen, and it could happen really fast. If you think it is bad now, if the market starts going up and the market value start really ticking in again, you will really have a problem. The cap probably needed to come off partly because it was a cap on taxes, not on assessments. The other people who have done caps have been on assessments on not taxes. You guys have to make decisions on budget matters if you have caps on taxes on the majority of your taxpayers, the residents— where are you? They may not care what kind of money you are spending. You need to make heroic, hard decisions on budgets and if you have all of your residents capped on taxes, what can you do? You cannot move anything. Where are you going to find the money? That is it. I will get out of here and hopefully you can finish in your timeframe.

Chair Furfaro: Mike, thank you for your suggestions on dusting off the old report. Hold on, Mike. We have a question for you.

Ms. Yukimura: Mike, what is your suggestion for what we use if we remove the cap?

Mr. Dyer: Again, we have removed the cap. That is a done deal. I think what you have to look at is the way we are doing our assessments. Market value assessments with the cap off is extremely dangerous for everybody, not just residential, but everybody across the board.

Ms. Yukimura: You say that somebody who sells next door does not have anything to do with you, but in fact, it increases what you can sell your property for when you sell.

Mr. Dyer: Exactly.

Ms. Yukimura: So maybe we need to tie it to time of sale.

Mr. Dyer: Maybe. What we chose to do on the tax force was to say that we will take a certain block of years right around the time that the task force was operating, average those out, and say, "Okay, that is the best data we have on valuation. Let us set it at that." Then we go forward on a CPI basis. We do not go forward on market value. We had that valuation run with the land. We did not worry about what somebody came in and paid later. We went forward strictly on an inflation basis and the assumption that your costs to run this County, more or less, should go along with inflation. If it did not, you had to come and explain to us why you went five percent (5%) instead of three percent (3%).

Ms. Yukimura: Thank you. I think we need to have a task force meeting.

Chair Furfaro: Thank you very much. Next speaker, please.

Mr. Sato: The next speaker is Sara Sloan, followed by Felicia Cowden.

SARA SLOAN: *Aloha*, Council. Thank you for being here to hear the testimony of the people concerned about this. My husband and I moved here over twenty-five (25) years ago as horticulture students and fifteen (15) years ago, we were able to buy a piece of agriculture land where we moved to plantation houses with the intention of building a family farm. That year, the agricultural laws changed. While we were in the process of making this farm, we were not even finished with our house. The agriculture laws changed and our taxes went up. I wrote a letter and I said, "Please, we want to put this money into agriculture, not taxes." I got a response back saying basically, "You need to comply." When I talked to them before, the agency said, "Just do what everybody does. Put a fence and put cattle." Well, we did not do that. My husband is the President of the Tropical Fruit Growers Association. We went ahead and grew fruit trees. We are just starting to be able to market our fruit and we built two (2) houses; one (1), my elderly parents live on. We do not rent. We just got our tax bill and I have been paying the taxes all along, thinking I wish we could comply with these laws someday, and our tax rate went up one hundred percent (100%). We have kids in college. We have expenses like anybody else. Our elderly parents do not pay rent. They help pay their insurance, the taxes, and their utilities. I just wanted to share my story because, yes, there has been no recourse on what to do now; who knows about this; who knows about this meeting; and who knew about this increase? Our neighbors down the line are all "CPR-ing" their property and dividing it up and selling it. But that is not in our intention and that never was our intention. I think we have embraced what you say you are embracing: how to raise our kids here, how to make a place for them, and how to make that happen.

Mr. Sato: Three (3) minutes.

Ms. Sloan: Thank you.

Chair Furfaro: Thank you. Next speaker.

Mr. Sato: The next speaker is Felicia Cowden, followed by Robert Girald.

FELICIA COWDEN: My name is Felicia Cowden and I want to thank everybody for their efforts and their presentations, and the Administration with ideas. I feel like we need to holistically review or tax structure and before that, we need to put some sort of a stay on— I appreciate this push out until

December that the Administration was suggesting, but we have to be very, very careful. People that cannot afford a ten thousand dollar ($10,000) bill in September or August probably cannot afford it in December. What I would like to see is a pie chart— I liked all of the presentations that we saw, but I would like to see a pie chart of where we get our Real Property Tax assessments from: business, industrial, small ag, big ag, mixed use, and the exempted areas. I would like to know what those are, if those are airports, Pacific Missile Range Facility (PMRF), hospitals, or schools. I would like to really see where all the money is coming from because it is important for us to see how big of a percentage are the housing holding of the cost. Are the residents holding most of the cost or it is really that more business— I would like to see how that is all split out because I think it would help everybody feel more comfortable about what it is. Bottom line, I am in agreement with the people who I have heard saying that the *ad valorem* system of taxes is not the best way. I feel like that is just pushing people out of their neighborhoods and off the islands. Every time there is a bump in the real estate market, it bumps people off of the island. Being from the north shore— I used to live in Hanalei... Hanalei has moved from being a community to largely a motel, and that can happen everywhere. I am in agreement with what Jay Furfaro said that the pieces about our ability to own more than about how much we can tax. I think we need to focus on our ability to own. I believe, as I watch this time of growth in the big burst of the real property values prior to 2006 in that window, our government grew while we were fat. We made a bunch of money and just like people who had all this money from getting home equity lines of credit... was like the County grew. A lot of that was in new divisions that came through Charter Amendments. I do not ever remember petitions being sent around with thousands of people meeting to sign to say, "Should we split Public Works from Parks?" I think that those were internal decisions from the County. The County decided to get bigger while there was a lot of money, best that I can remember.

Mr. Sato: Three (3) minutes.

Ms. Cowden: We have to figure out a way to bring the cost down, but make sure that there is equitability around all of the different elements. I appreciated Tim's charts that showed the different groups of where there was growth and where there was not. I guess my brain works a little more in a pie chart, so I appreciate that. I just need to think longer on looking at where the money is actually coming from. It comes down to priorities of whether we want to replace our population or not. I think when we do this *ad valorem* taxes, we can replace our population with people who can cough up enough money to support a government as large as we want to grow it— I just do not think that is what we want to do. I heard a little piece there from Mike Dyer... or maybe it was JoAnn... a little bit about the time of sale. That is something that I wondered, if there is a deferral that can be placed because we see people who have owned their homes from the time they spent thirty thousand dollars ($30,000) on it in Hanalei, and they sell it for four million dollars ($4,000,000); maybe there can be a little bit of a bump that comes out, so that the goal being how do we keep people in their houses, how do we keep people on the farms, and how do we not replace our population. I think we always need to be supporting people's ability to live here, more than big companies ability to come in. What I see happen is yes, jobs are created, but they are created for people who do not live here, so that accelerates the housing market too. We have the outside investor accelerating the housing market, but we also have big brand name companies that come in and bring their best paid people in who get another couple hundred thousand dollar jobs that can afford these high-end houses. I also have a whole lot of ideas on how to get the word out, so people will come in and be aware of when there is teaching. That is essentially my testimony. Thank you so much.

Chair Furfaro: Felicia, you have a question from Mr. Bynum.

Mr. Bynum: I think you made a lot of really good observations. There is just one thing... because I heard it said here for years, "The values went up, so my taxes went up." You know that our Tax Ordinance requires us to set that percentage each year, right? You understand that increased values do not lead to increased tax bills— only when the rates are not set; only when we do not follow the Ordinance.

Ms. Cowden: I get that. I do understand that. We should make a point to make sure if we are in a spike, then there must be some sort of mechanism that calls attention to that, so that we actually reduce it. I think it is always easier to be on the receiving side, so if you are going to get a big burst, shot in the arm of cash, you are not going to jump in to stop it. We want to do it before it is a crisis.

Mr. Bynum: I just want people to get that out of their mind that increased values automatically lead to increased taxes.

Ms. Cowden: It does if no change is put in place. It takes an action step to protect.

Mr. Bynum: If the people who are required by Ordinance to make that analysis "do not do it," then the taxes go up.

Ms. Cowden: Right, so we need to make sure that we are always conscious for that.

Chair Furfaro: Felicia, thank you for your comments and statements. This is a communication between Mr. Hunt and myself, but you can get that copy that answers your question.

(Mr. Rapozo is noted as present.)

Ms. Cowden: Thank you so much.

Mr. Sato: The next speaker is Robert Girald, followed by Linda Garrell.

Chair Furfaro: Mr. Kagawa, do you want to say something?

Mr. Kagawa: Yes. I know we have a couple more speakers. Like I said, I do not know if I am angry or what, that I am not going to get my chance to summarize because some members have had time. The plan is that we are going to take the rest of the speakers and the captioner is gone at 2:00 p.m.?

Chair Furfaro: I do have another plan for other members. I sincerely sympathize with what your comment is. Go right ahead, Sir.

ROBERT GIRALD: Good afternoon, Chair Furfaro and Members of the Council. My name is Robert Girald. I am a resident of Puhi. I too was surprised when I received my property tax bill. I had a ninety-seven percent (97%) increase. Lucky for me, I have been afforded the protection of the cap for all of these years. My increase dollar wise was not all that great as some of the people have expressed here, but nevertheless, it did double from where I was. By a few dollars, it would have doubled. The thing I look at is that the cap was put in with the intent of trying to protect people from other inflations that took place, which caused property values to increase. For a homeowner like myself, which I think are probably the majority of homeowners, we look at depreciation as just paper. It is not enough value to us because we are not there to sell our homes. I am living in my home for forty-three (43) years, which I bought forty-three (43) years ago, so I have no intent of selling my home. It may be going to my children when I pass on, but I look at that as paper; value is no value to me. Now, when you look at the statements that have been made— yes, we can adjust taxes, in respect of whether the appreciation went up. It is how you set the tax rate. It is interesting to note that from the information given to us today, amongst the neighbor islands, Kaua'i has the highest average homeowner tax bill, lowest household median income, and our real property percent is the highest amongst the neighbor islands. When I look at that, it tells you that we are not in the best position at this point on a statewide basis through the neighbor islands. I think that what I feel is important that if the caps need to be adjusted, they should be done in a much smaller matter, but they should be capped. I think the cap was important. When I go over and look at what has happened, I feel for all of you because I know this is not an easy job. People come here, criticize you, and say whatever, but if I was on that side of the fence, I guess I have to look at things the way you are looking at it because you have to meet that budget. You have to find money. I know it is very difficult, but I think in the past, there has been a lot of talk about— I think Councilmember Rapozo talked about this before, about doing an audit of Public Works to see how things are going. I think he called for that years ago. This County has a lot of good employees. I think most of you know that I spent the majority of my adult life representing unionized and non-unionized workers. I am a strong advocate of the workforce, but I think in private industry, the people that work for our company has to meet certain production standards, including being there at work. In this area here, in Public Works in the County, I see a lot of good workers, but then there are a lot of guys that are sliding. I think that it will be worthwhile to find out whether we really need the number of people we have because otherwise, this is what you are going to be looking at. In another four (4) or five (5) years, Kaua'i County— today's headline, "HHSC to begin layoffs." You are going to be faced with this. I think that if you can recognize the issue now by normal attrition, you can prevent having layoffs. I think you needed to look down the road. I know some people are saying, "What the heck am I saying something like that," but I think it is a fact. I would rather see normal attrition take place and not cause layoffs. You have to look at that. I think for those of you who come back on this table next year should really start looking because do not wait until the time of the budget. I just heard the County Engineer, a couple of days ago, say, "Well, we have reduced overtime way down." What causes overtime? Absence? Maybe the production itself? I think they need to look at what is causing it. Private service or private industry cannot operate with some of the things that I see happening here. The other thing I wanted to say is that I think this workshop should have been done before this came about. This is like the "horse out of the barn" and now "we are closing the door." It is too late. Everybody is upset. I think for those of you who have been around here long enough, you remember Nukoli'i. People were so upset. Something drastic happened and it took years to rectify that. Let us not wait until we reach that point. I think that we should pay attention to the public and pay attention to the issues that they are concerned about. I am not saying that you do not. I know you guys try your best. Finding money to meet the needs of the County budget is not an easy thing because I do not care where you take it from, you are going to get somebody upset. I understand that you are trying to find that balance and I recognize and respect you guys for that. That does not do enough. You have to show some action that is positive that people can feel comfortable with.

Chair Furfaro: You hit your six (6) minute time.

Mr. Girald: Okay. Thank you.

Chair Furfaro: Thank you very much.

Mr. Sato: The next speaker is Linda Garrell, followed by Ronald Pizullo.

Chair Furfaro: I am going to share something with everyone in the audience. We have four (4) speakers left to hear your testimony. Please come up. I want to be fair and equitable in dealing with the Council. I gave Mr. Bynum his ten (10) minutes and I gave him my ten (10) minutes as well. Whoever the next speaker is, please come up. What is the name again?

Mr. Sato: Linda Garrell.

Chair Furfaro: She is not here. Next one, please.

Mr. Sato: Ronald Pizullo.

Chair Furfaro: He is not here. Next one, please.

Mr. Sato: Carmela DeMarco.

Chair Furfaro: Carmela, come right up. Let me finish my housekeeping item. When we conclude with all of those speakers giving testimony, I will go around the table giving each member their ten (10) minutes to summarize, starting with Mr. Kagawa, Mr. Rapozo, Mr. Hooser, and Ms. Yukimura. I have given up my ten (10) minutes to Mr. Bynum who had a twenty (20) minute presentation, so I will not speak. Go ahead and introduce yourself.

CARMELA DEMARCO: My name is Carmela DeMarco. I live in Po'ipū. I thank the Council for having this workshop, even though it was really hard to find out about it. I even called the Assessor's office to let him know when it would be. What I can say first of all is that we lost our safety net. That is what you took away from us. I have owned my house since 1985. I have a long-term rental downstairs that I keep under market. I am on social security because I am retired. This going from... it rose about one thousand two hundred dollars ($1,200) to five thousand dollars ($5,000) in two (2) years. Last year, they decided to assess me as a vacation rental, which I never had, and they did not give me any notice about it. They just did it. The only time I found out about it is when my tax bill came in and they said, "Well, it is too late to do an appeal." Why is the information not done up front? We all have mailing addresses. Even if they did not have my phone number, they had my mailing address and they could have sent something before they did that. Even with that, last year, it was three thousand dollars ($3,000), which was the year before, and this year, it doubled again to five thousand dollars ($5,000)— it was not doubled, but still. That is a lot of money. For me to pay it, I had to use my credit card. On top of that tax, I had my interest to pay and all of that stuff, which I did not intend to have. To take away the safety net from all of us is just not right. I think this workshop— yes, you should have it before you did it and address some other ways to do it. Now, you have got so many different classifications and we have to go through all of this stuff to get our taxes down where we can afford them. This does not make sense. In California, they had that Proposition 13 and they had it for a reason, because of the *ad valorem* taxes and people being taxed out of their homes. In addition to that, they had the supplemental taxes, so that any improvements to the property, and they would find out from the building department, they would reassess it. They did have just that cap, but in addition to that, in improvements. You could do that here: have the supplemental tax increase. That thing goes out automatically anytime somebody does it.

Mr. Sato: Three (3) minutes.

Ms. DeMarco: That has been working in California for many years. Why can you not have something like that? Again, I appreciate your hard work, but this is really a hardship. It is a very big hardship. I hope you address it. Thank you.

Chair Furfaro: Thank you for being here today. We have one question for you.

Mr. Bynum: If you could leave your full name and property address with the Staff, I would like to look more specifically into what you are saying, please.

Ms. DeMarco: I did.

Mr. Bynum: Okay. Thank you.

Chair Furfaro: You have one more question from Mr. Hooser.

Mr. Hooser: Mr. Hunt is in the back of the room also, so I am sure he would be happy to meet with you, at least briefly.

Ms. DeMarco: I had these things mailed to us and it said that the tax circuit breaker was going to be carried forward and grandfathered in, and that is not what happened.

Mr. Hooser: Thank you.

Mr. Sato: Our last registered speaker is Ken Taylor.

Chair Furfaro: Ken, you are our last speaker, and then we are going to go around the table with the members that did not have a presentation, or in my case, the time I transferred over. Ken, you have the floor.

KEN TAYLOR: Chair and Members of the Council, my name is Ken Taylor. A few weeks ago, you asked me to shed some light on California's Proposition 13 and I tried to summarize some of the information in the packet I turned in. In 1978, California voters approved initiative Proposition 13 by a 2:1 margin, amending its Constitution to provide that real property tax shall not exceed one percent (1%) of market value of the property and shall not increase by more than two percent (2%) for any year. The amendment has been a target of criticism, but it has remained enforced for merely forty (40) years and no efforts to supplement it have been successful...

Chair Furfaro: Excuse me just a second. Steve, can you take your conversation outside because we are picking it up here on the mics. Thank you. Go ahead, Ken.

Mr. Taylor: Before I get into making comparisons between Proposition 13 and Kaua'i taxes, I would like to just talk briefly about some of the situations that came out of Proposition 13 or even led up to it. The disparities in the property tax system are nothing new. In the 66 report entitled "Problems of Property Tax Administration in California," the assembly Committee on Revenue and Taxation was informed that equalization of assessments is more a myth than a reality. They go on to say that under this hypothetical revenue neutrality tax change described for Los Angeles County, forty-three percent (43%) of the households with a 1975 base year would find their property tax bills increased by over one hundred sixty percent (160%). The report goes on to talk about stability and during the years from 1980 through 1991-1992 was an average annual growth rate of nine point eight percent (9.8%). Acquisition value assessments provided sustainability, greater predictability, and certainty of revenue flow to local agencies with property tax revenues growing at a steadier clip than any other revenue source. Since the adoption of Proposition 13, property tax revenues have grown at a rate of approximately ten percent (10%), compounded annually over a ten (10) year period.

Chair Furfaro: Ken, that was your first three (3) minutes. You have three (3) additional minutes.

Mr. Taylor: Getting back to comparison of the Proposition 13 to the local situation— Proposition 13 contained a limit on a percentage of property tax can be assessed value of the property one percent (1%); no such provision arise on Kaua'i. Proposition 13 included a provision of an annual tax increase of two percent (2%). Until this year, Kaua'i Real Property Tax also included such a provision. Proposition 13 covered all taxable real property. The Kaua'i tax cap only covered the properties of owner-occupied residents. The revenue from such properties constitutes only about ten percent (10%) of Kaua'i's Real Property Tax revenue. In California, Real Property Tax are only one of the State's several revenue sources. California also has income tax, sales, and other taxes. On Kaua'i, Real Property Tax is a principal source of Kaua'i tax revenue. Kaua'i has no other major tax revenue source. In California, no annual assessment of taxable properties is made. When a property is acquired, its market value at that time becomes a base for tax purposes. This value is typically determined by the property sell price. The avoidance of the need for annual evaluations of property results in a substantial administrative cost savings. The elimination of the need for annual assessments... only about twenty thousand (20,000) Kaua'i owner-occupied residents' residential properties would also result in some administrative cost savings. Under Proposition 13, the amount of taxes basically determined by the value of the property at the time of acquisition subsequently values increased and does not affect tax amounts. This may result in a property having comparable value, which are acquired at different times, having different tax liabilities. This disparity is not a significant concern to California taxpayers. In my case, the year before Proposition 13— my area was reassessed. My taxes went from four hundred sixty-five dollars ($465) to one thousand eight hundred fifty dollars ($1,850).

Chair Furfaro: Ken, that was your six (6) minutes. It looks like you are reading from a script. May we have a copy of that script?

Mr. Taylor: You do.

Chair Furfaro: Okay. I am sorry. I have several pieces in front of me.

Mr. Taylor: It has been turned it.

Chair Furfaro: Thank you.

Mr. Taylor: I notice that a few pages are mixed up, so if you get to a point, there are a few pages out of sequence.

Chair Furfaro: Okay. Thank you, Ken.

Mr. Bynum: Ken, you said your taxes went from four hundred dollars ($400) to one thousand eight hundred dollars ($1,800)?

Mr. Taylor: Four hundred sixty-five dollars ($465) to one thousand eight hundred fifty dollars ($1,850).

Mr. Bynum: Then Proposition 13 came in, right?

Mr. Taylor: Then it went back down to four hundred sixty-five dollars ($465).

Mr. Bynum: Okay. Thank you.

Chair Furfaro: Thank you, Ken. For everyone here, I am going to allow or ask four (4) Councilmembers who, other than myself did not speak or conceded their time, for comments for today. We are going to start with Mr. Kagawa, Mr. Rapozo, Mr. Hooser, and then JoAnn. It is very clear for all of us to note that on September 10th, if there are any new bills to introduce and so forth, that is the date we are looking at. We will also entertain some bills from the Administration. I am trying to keep that agenda as minimized as possible. Again, although we will post the date, it is almost impossible for us to actually announce the time, but the date will be September 10th. Mr. Kagawa, the floor is yours.

Mr. Kagawa: Thank you, Chair. In today's workshop, I think my job here was to observe and listen to this big problem that is out there. I think Steve Hunt did a nice job of explaining from the Administration side of what is going on and what may have caused problems, and I appreciate that. I think the part of the workshop that I was not pleased with is that we have had speakers come up and we tried to dissect the problems individually. There are hundreds of people who could not make it today that really are experiencing similar or even worse problems. I think we are not going to solve anything in a workshop by dissecting people's case-by-case. This is a job of the Real Property Tax office that needs to sit down with them and find real solutions, not hypothetical solutions coming out of the air. What we needed to do today was observe and listen to what is going on. Is *ad valorem* the way to go? Is it the fair way? Was the removal of the cap really necessary at this time? If I look at this map here, it shows how much people had the cap in the 80s. There are three (3) states. In 2000, I believe there are thirteen (13), fourteen (14), or more that have cap limits. Now, Kaua'i County is deciding not to follow the trend. Do we know something that they do not? These other states are all moving towards capping the crazy real estate market that is happening all over the world, or all over the Country, and Kaua'i County is deciding, "No, we are going to get away from that. We know better." I do not know what is better or what is fairer? Apparently, things are not all good on Kaua'i. I am seeing a lot of... and I have heard and listened and I am getting through E-mails of a lot of complaints, especially about the mixed use properties. These are people that have bought a while ago, lived and operated, and TVRs. I think the cap protected them, but now, they are out of the homestead class. They are being thrown into highest and best use, residential class or TVR class, and they are just getting killed by taxes. Is that fair? We have some people from the Administration and some on the Council that is telling you, "It is what it is. Accept it. We will try to help you with some exemptions here and there." I am not like that. I say let us put the cap back on, take our time, whether it takes one (1) year or two (2) years for real tax reform that everybody is clear and understands, and we do not have meetings like this where we are trying to dissect individual people's complaints. I think this is ridiculous to try to digest one-by-one their complaints. We do not have all the facts in front of us. This Real Property Tax reform is not an easy job and I do not know why we tried to "slam dunk" the removal of the cap immediately. I know why; because it is easy for the Real Property Tax office to just use *ad valerom*, multiply by the rate, and boom, there is your tax bill. Real reform in this crazy real estate market is going to take a lot more effort than us, if we want to make the community as a whole happy and at peace with the way government has handled this situation. I like Carl Imparato's suggestion. I want to work with Carl in real tax reform and I will work with anybody else who is open minded and who does not believe that *ad valorem* is the way to go. "Here you go residents. Pay your bill." I am not like that. That is why I voted "no" on the removal of the cap because I was not comfortable. I do not know where we are going from here. My suggestion is let us get back to the cap and until we take our time and find a thorough analysis of what kind of tax system we want here on Kaua'i, I will always not support just going back to *ad valorem* because it is easy for us to administer. Thank you, Chair.

Chair Furfaro: Mr. Rapozo, you have the floor.

Mr. Rapozo: First of all, I want to apologize for having to leave. I am just trying to take care a lot of personal issues at this time and trying to get back as quick as I can. I apologize, but I assure you that I will listen to everybody's testimony that was made today as soon as they are available. I kind of agree with Mr. Kagawa. Fairness and equity— we keep saying that and I think the system as it sits today is not fair and equitable. I think that was stated today, even before I left the room. Our job is to balance the budget. I understand that. I think when we look at revenue enhancements, I think it is what it is called, but in my dictionary, it is called "tax increases." Revenue enhancements have to be balanced with some sort of spending cuts. That has always been my position. Mr. Girald is correct— I have been an advocate of an audit of Public Works, Solid Waste. In fact, check the record, I have made numerous requests and all have been denied. It never made it passed the Council. But that is the only way we are going to find out if we, in fact, are running this government in an efficient manner. I agree that attrition is the best way, but you are right. There is going to come a point that if we continue on this road where pink slips are going to have to be handed out, furloughs— and no one wants to do that. We cannot continue to sustain this budget by continuing to raise taxes. That has always been my position. Like Mr. Kagawa stated earlier, I did not support the cap because I kind of saw this coming down the road. I am not a financial expert, so I could not say that with any certainty, but I think even as a layperson looking at that, you could tell that the amount of money that was to be generated based on the removal of the cap was going to hit some people very hard. You did not have to be a financial expert to see that coming. So I voted against that, and unfortunately, we were in the minority. Nonetheless, we have been dealt this hand and now we have to deal with it. As Mr. Kagawa stated, the cap must be restored. I do not know if Mr. Kagawa talked about this while I was gone, but we are introducing an amendment that will restore the cap. I agree that there are issues. A reset clause may have to be added. I think there is some tweaking that needs to be done. Nonetheless, I believe that is the only way that we are going to put the stability on our taxpayers; not just the taxpayers, but also the government. I remember that I was at a business conference or seminar and one of the training sessions was about "what do you do when you make your first one hundred thousand dollars ($100,000) a year, and I remember the speaker saying, "That one day is going to make one hundred thousand dollars ($100,000) a year, but just know this: the more you make, the more you will spend, unless you become disciplined; unless you understand that you have to save some of that." This County spends what they make. In fact, in the last four (4) years, we have spent more than we have made. The problem with that is that we become a County that is chasing that debt. We are chasing. What we are trying to do— you saw this here yesterday as well— we are trying to find any which way we can to somehow raise our revenue, whether it is trash or whatever fees we can get a handle on and justify it. We try to do that because we need to feed the beast. We have to stop feeding the beast is my point. We have to come up with a solution that is an equitable solution; a balanced proposal that is not just revenue enhancements or increases, but also some spending cuts. Believe me, the community will be upset with some of the services that get reduced, but you cannot be upset with raising taxes, and then upset with services are cut. You cannot have your cake and eat it too. That is the harsh reality. I do not want to be "party pooper," but reality is reality. If you want to pay fewer taxes, then expect some of the services to be reduced at this time. We cannot pretend that we are going to continue the level of service at a lessor rate. We are not going to do it unless we take some drastic actions, which again, the audit would definitely show. These band-aid fixes: temporary, very short lived, come with some unintended consequences, which we are seeing today. The only thing that provides stability that we know what the outcome will be is the cap. We know what hand will be dealt if we restore the cap, and then the County needs to make the adjustment. We should not expect you to now go and figure out how you are going to come up with that extra thirteen thousand dollars ($13,000). No, the County has to come up with a way to figure out how we are going to do that with thirteen thousand dollars ($13,000) less. That is the way government is supposed to work, not just compounding the problems on you folks. That is what is happening. We have to fix the problem. It may take two (2) years or three (3) years. We spend hundreds and hundreds, if not, millions of dollars on studies throughout the year: studies for the Līhu'e Town Core Plan, studies for this, and studies for that. We study everything to death, but I do not ever recall approving money for a study on Real Property Tax reform. I do not recall and maybe I am wrong. There are many jurisdictions out there that have figured it out. There are many jurisdictions, as Mr. Kagawa pointed out on his little map there, that made that transition. Why would we not want to follow or at least learn from them? That is not something for this body to do; that is something for the Administration to do; the Finance

Department. That is what I am challenging them to do. We can sit here, and I guess this proposal by the Administration will cut seven hundred thousand dollars ($700,000) or so. Maybe we should have spent one hundred fifty thousand dollars ($150,000) of that to study this and study the models available for a county like ours to see what kind of tax system is available. I apologize, again, for not hearing your testimony. I am anxious to read it. Predictability— I think someone called it a "safety net." I think on both sides of the aisle— for the taxpayer, it is great to know what your tax liability will be. For us as Councilmembers, I would much rather know how much we have to have available for the budget, then find ourselves in a position where we are wondering, "Where are we going to find nine million dollars ($9,000,000)? Let us go and raise the tax." The charts you saw today— although, maybe if you look at the general theme of it, the average increase may have not been that much, but to someone that is on a fixed income or to someone that got hit on the higher range of the thirteen thousand dollars ($13,000) or the twenty thousand dollars ($20,000) or twenty-five thousand dollars ($25,000)— that is a big deal. That is huge deal. It is the difference between whether they keep their home or not. That is traumatic. At least the cap puts the predictability back knowing that "at least I know I am not going to lose my home." Yes, it is going to put the County in a predicament because now we have to figure out how we have to do it, but after the hurricane, we figured it out. There was no bigger disaster on this island than Hurricane 'Iniki, but we figured it out and we got it to work with less tax revenue. We can do it again. That is all I am soliciting from the Administration is let us come up with a balance. I remember joking with the Mayor months back saying, "For every dollar you want to raise the tax, show me a dollar decrease. Show me a dollar where you are going to cut. That way, at least the public will have two dollars ($2) of value for the dollar that they gave up." I cannot give you that today. That is what bothers me. That is what I am looking for. Until we can sort everything out to go with these proposals that I saw, I am not convinced today... maybe some of you are... that the results will be as stated. I cannot tell you that. I am concerned that we redo this whole proposal all over again and we end up in a similar situation or worse. I do not know that and I will not support that because I do not like the fear of the unknown. Again, that is why I did not support the cap because I figured that something like this would happen. So as we move forward, I think Councilmember Kagawa and I will be introducing an amendment on September 10th. I just heard today that the Chair is going to allow it on September 10th. It will be to restore the cap retroactively and figure out a way that the County is going to manage that. It is our *kuleana* and that is something that we need to do. Thank you for your time. Mr. Chair, I appreciate you allowing me to speak and I apologize for my absence. I look forward to September 10th. Thank you.

Mr. Hooser: Thank you, Mr. Chair. I would like to thank all of the people who came out today to testify. Thank you to the Director of Finance, Steve Hunt, for an excellent job and for hanging out all day and talking to people one-on-one. I think it is important that people get treated as individuals and I am glad to see that some of that happened here today and I look forward to more of that happening in the future because it is really an individual situation and people's individual financial situations that matter. I agree a lot with what said earlier. I think we really need to take a long view at this. Mr. Wells was here earlier and said that he thought we needed an overhaul, and I agree with that. I agree that it might take a year or more, but I do not agree that it is simply the Administration's responsibility. I think it is the Council's responsibility to work with the Administration. I think the Council is a policy setting body and we should take responsibility today for the situation that is here and we should take the responsibility tomorrow for the situation we create. I would be advocating for the Council to work hand-in-hand with the Administration to look at the future and how we might better formulate our tax policy in the future. I am inclined to be open to restoring the cap, but I want to hear the options around the table. Mr. Dyer made some good recommendations and there are different ways to do this when you take a long view. In the meantime, I think what the people who testified here today and the people that are most concerned about this need to know what is going to happen today, not what is going to happen next year or the year after that. What is going to happen today to help you write the ship of your financial situation? Councilmember Bynum and I met with the Finance Department and I think that is where these proposals should work; the Council working hand-in-hand with the Administration. We will be proposing some immediate relief. That relief I described a little bit earlier would be: number one, extending the exemption deadlines and making them retroactive; number two, would be to take the Administration's proposal for the capping of those increases by making it much more aggressive and providing much greater relief; and number 3, would be looking at the use classification. That seems to be the biggest problem where ten percent (10%) or twenty percent (20%) of the use is commercial in the entire property. I believe we can fix that relatively easy. If it takes additional staff to implement it, so be it, but I do not believe that it is fair and equitable by any stretch of the imagination for a person to be taxed on their entire property for a use that is only ten percent (10%) of that property. Those are the three (3) main provisions. At the end of the day, I think that would require a complete overhaul. It is something that this Council is responsible for and this Council should stay engage and continue working on it with the Administration and wit the community. There is a lot of individual situations; this life estate issue, that one (1) person gets affected dramatically. The tax office needs to be able to structure it, so it is more responsible to individual situations. That is a difficult line to tread because if you get too much discretion, then there is abuse. But they need to be able to deal with individual situations, so if there are changes, it does not take an act of the Council to fix one (1) person's situation. I am committed to this and I believe that our Council is committed. At the end of the day, we are going to provide some immediate relief to those who are dramatically impacted in these last couple of months; people that have had unexpected— like the people said: it is one thing to have your taxes go up a little bit, but it is a whole other thing to have an expected large increase, which are just uncalled for. This Council needs to be responsible for fixing that and you have my commitment as an individual Councilmember to do what I can to make that happen. I am confident that the majority of the Council will feel the same way. Thank you.

Ms. Yukimura: Thank you, Chair. I am deeply appreciative for this workshop, first of all. I want to thank Councilmember Kagawa and Chair Furfaro for initiating it. It certainly does not get us to the relief that some of you are looking for, but it is important that we all understand what is presently available and we hear from you as to what your specific issues are. I appreciate the workshop. I greatly appreciate Steve Hunt and his effort to explain to us and to manage the Department and to manage this major change that has been in the works. I really appreciate all of you who are here and those who have had to leave for coming forth. I hope people understand that in this system that we are in the process of moving toward, there were five thousand (5,000) plus taxpayers who had lower taxes this year, and those were the ones that Councilmember Bynum showed as very high taxes that they have been paying over many years now, while others of comparable value were paying less. While that may not bother some of you, it does bother me because I do not think that is a fair way to go and when you think about young families buying in, they are some of our children. The cap has two (2) problems: one, discrepancy, and two, the lack of adequate resources. What happened in California is that fees started getting raised and so my fellow colleagues here... some of them... refused to raise fees, and without that, we would not have a balanced budget this year. I hope people understand that our services, whether it is Police, Fire, or Parks... the expansion of the Black Pot Beach Park, which we recently did; traffic congestion; the rescue of the one hundred twenty-five (125) people from Hanakāpīʻai— those are all part of our commonwealth. Without those workable systems, our property would not mean much to us or would be much of worth. That is what makes our community goal and we have to pay into that in order to get those services. The challenge for all of us is to find a source of money that we can collectively bring together that keeps this community prosperous and functioning, while at the same time, doing that assessment of moneys fairly. That is a huge challenge. What we just did by removing the cap and trying to bring in all of these other programs is an effort to address that. As we look at those individual situations, you can see that the thought that Steve and others have given to it are actually giving real solutions to people that will keep those long-term residents here living here on Kauaʻi. Actually, I feel that this is real tax reform. I want to say that those who opposed removing the cap did not propose any other alternative system at the time that the cap was removed. I also want to say that during the budget previously, there were Councilmembers who are now speaking for the cap that said we have to get rid of the cap. The two places where we did terribly was getting the information out to people. I do apologize and we have to find better ways to be in communication. Again, I cringe at some of the stories about how people were treated at the counter or in phone calls in terms of these problems that they brought forth that were caused by us, and how we responded to them was not proper. I think we have to look carefully at the interim relief that is being proposed and look at some of the more long-term solutions, whether it is raising the Affordable Long-Term Rental limits in high priced areas or allowing a deferral of some portion of real property taxes where it is high to time of sale. We have to look at some of these things, but I believe the system that has been brought forth by the Administration is actually real tax reform and I would like all of us to apply it to the situations and find out how they actually work or do not work, and whether tweaking is needed or whether we really do not have a good system in place.

Chair Furfaro: I want to give some general information to the public here. My plan is to adjourn this period. I think we got a pretty good sample of some of the issues that are out there. Since I control the agenda, my plan is to allow budget bills to be introduced on September 10th. I want to point out that we have some members that are traveling, but I want to point out that the first reading on the bill will only generate a public hearing. You should mark your calendars for the introduction of the bills on the 10th and the public hearing will be on the 17th. Did I get the right date? Okay, it will be on the 24th. I am going to reiterate that we can plan for the public hearings to specify for 1:30 p.m. for those times. I want to recognize all of the Councilmembers here today that interacted with you. Thank you for being here. I would, as we approach this, to find ourselves— I know I used to say it pretty good in the fourth grade, but let us not be pointing fingers at one another. When we get to the bills, the bottom line is let us not be pointing out those shortfalls. We have to do Kauaʻi first. We have to focus on Kauaʻi and its needs. Please take my strong recommendation that we work together going forward on doing the right thing, for the right reason, and for our community. It is difficult because everything is not in our control. We have one (1) vote on bargaining units in the State. We have no control over the TAT, which used to be seventeen percent (17%) of our income and it was cut in half. We do not have a say unless we get legislative action on the GET. We need to be very focused for the curing of things that turn out right for our community. I want to thank the members and thank those in the audience for being here. It sounds like even though I voted silent on the removal of the cap because it was my introduction, it might be something that comes back. Until then, please read through the material that we left out here. It may answer a lot of your questions. Last, Steve, I want to make sure that the Real Property Tax Assessment office is still open to setting up appointments for the public. Can I just have a nod of the head? For people who have individual issues, the tax office has given that extension, and they can be reached at 241-4224. *Mahalo* to everybody today.

Mr. Hooser moved to adjourn the August 28, 2014 Special Committee of the Whole Real Property Tax Workshop, seconded by Mr. Kagawa, and carried by a vote of 6:0:1 *(Mr. Chock was excused).*

Chair Furfaro: Thank you. We are now adjourned.

ADJOURNMENT:

There being no further business, the meeting was adjourned at 2:43 p.m.

Respectfully submitted,

SCOTT K. SATO
Council Services Review Officer

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